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ABSTRACT

Certain education-related proposals in the President's Budget have excited controversy. The proceedings of this hearing deal with three of these controversial issues: (1) the best means of providing assistance to families of middle-class students enrolled in higher education institutions, (2) the continuation of the impact aid program, and (3) the need to expand the Title I Program. A statement from Dr. Bette E. Hamilton of the American Association of Community and Junior Colleges supports the use of a tax credit system rather than a student aid system to assist middle-income college students because of the danger that an aid program would penalize lower-income students and contain hidden costs to applicants, institutions, and government. A statement from Dr. Margaret S. Gordon on behalf of the Carnegie Council on Policy Studies in Higher Education instead supports an aid system because of the inefficiency of a tax credit system, its high cost in relation to benefits, and the possibility that it would discriminate against private institutions. James F. Green of the National Education Association presents a statement urging the expansion of the Title I Program to serve all eligible students and recommending the continuation of the impact aid program. (Author/JM)

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VARIOUS EDUCATION INITIATIVES IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1979

HEARING

BEFORE THE

TASK FORCE ON HUMAN RESOURCES

OF THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

FEBRUARY 22, 1978

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VARIOUS EDUCATION INITIATIVES IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 197^

WEDNESDAY, FEBRUARY 22, 1978

HOUSE OF REPRESENTATIVES,
TASK FORCE ON HUMAN RESOURCES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The task force met at 2:30 p.m., pursuant to notice, in room H–236, the Capitol, Hon. Parren J. Mitchell, chairman of the task force, presiding.

Mr. MITCHELL. Ladies and gentlemen, the hearing will now come to order.

I apologize for the inconvenience. Our task force, I must say, is run better than this.

Secretary Califano was before us this morning and as chairman of the Task Force on Human Resources, I took the opportunity to commend him for the significant increase in the area of education.

As you know, each year, as a member of the Budget Committee, it has been incumbent upon me to add an amendment to increase educational spending. I hope that I will not have to do that this year.

Education programs have received significant funding increases in the President's budget proposal for fiscal year 1979. The elementary and secondary education program area is 15 percent above the fiscal year 1978 level. In addition, recognizing the importance of early childhood education, the President's budget proposes increases in the Headstart program.

Clearly education is a high priority item in the President's budget and funding increases are targeted on disadvantaged and handicapped children. These increases are undoubtedly justified, given the differentials that exist with respect to educational attainment and achievement between various groups in America.

There has been considerable controversy nonetheless over the need to target higher education assistance on middle-income students. Also, the new impact aid legislation has generated the concern of various groups. Moreover, the impact of the administration's proposed title I urban/rural initiative could cause a regional controversy.

Therefore, the purpose of today's hearing is to examine the efficacy of these various proposals.

Today we have with us Dr. James Green, assistant director for legislation, National Education Association; Dr. John E. Tirrell, vice president for governmental affairs, American Association of Community and Junior Colleges; Dr. Bette E. Hamilton, associate director, American Association of Community and Junior Colleges; and Dr. Margaret Gordon, associate director, Carnegie Council for Policy Studies in Higher Education.

We are deeply appreciative that you could take the time out of your busy schedules to be with us. We are going to take Dr. Bette E. Hamilton, our first witness, out of order because of her tight timetable.

Congressman John Rousselot, the ranking minority member, is here. Do you have a statement?

Mr. ROUSSELOT. No.

Mr. MITCHELL. If not, we will proceed with your statement Dr. Hamilton.

STATEMENT OF DR. BETTE E. HAMILTON, ASSOCIATE DIRECTOR FOR GOVERNMENTAL AFFAIRS, AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES, ACCOMPANIED BY DR. JOHN TIRRELL, VICE PRESIDENT FOR GOVERNMENTAL AFFAIRS

Dr. HAMILTON. I am Bette E. Hamilton, associate director for governmental affairs of the American Association of Community and Junior Colleges. To my right is Dr. John Tirrell who is vice president for governmental affairs.

Official decisions on policy are made by our board of directors which hasn't had a chance to discuss the tuition tax credit or the President's alternative, although the Commission on Governmental Affairs, which makes the policy for our governmental affairs office, did vote in December to endorse the concept of a tax credit. This was done prior to any knowledge of the President's alternative.

Last December, after talking with White House people, we had no idea that anything like this would come down the road. So let me just bring that to your attention.

The plight of the middle class has been documented by many scholars, Larry Lesley from the University of Arizona among them. It seems that middle-income parents and students pay a greater net cost to go to college than do either the very poor who are subsidized by student assistance programs or the wealthy who have greater assets to begin with.

Inflation and other problems have made it increasingly difficult to keep up with the escalating cost of postsecondary education. Needs analysis formulae, which often determine what a family is supposed to contribute to postsecondary education, are not very appropriate for middle-income families.

In speaking with one of the White House aides to the President recently, she commented on the fact that there was really no need to address the concerns of middle-income students because they really did have enough money and that helping them would be adding to middle-class hedonism.

I don't think it is hedonism. I think it is a fact that middle-class families value other things as well as education. They like to have a roof over their heads. They have to have a car to go to work. They may want to take a trip to Disneyworld once a year or what have you.

But the costs are there. It is a perceived need. I am a political scientist, not an economist. It is a perceived need. Whether or not one documents the need from a model or says that there is no need, is not relevant in terms of politics—because the need has been well-documented by the public by their response to the tax-credit proposals in both the Senate and the House.

Let me go to the alternatives now. I have a poster here which demonstrates the differences between the administration's proposal and that of Senator Pell. I think it is interesting to look at where the proposals vary.

This is the current level of applicability in the basic educational opportunity grant. See, it is rather limited in terms of who is eligible. The minimum award is left at $200. The President's package does increase the maximum grant to $1,800, and this line represents an increase in the number of independent students. The proposal raises the nontaxable income a little to independent students.

For income in the $15,000 to $25 000 range, the line is flat. It is a horizontal line. It looks very much like a tax credit. It could be argued that it would be a different department administering it, and so forth and so on.

This more slanted line is Senator Pell's proposal. It looks to be more progressive. People with different income levels receive a different grant until one gets to $25,000 where it automatically goes down. His minimum grant would be kept at $200, which is the current level.

So that just shows you that there is really a difference between what Senator Pell has proposed and what the administration has proposed.

Now, should the Congress decide to deal with this middle-income problem via a student aid approach, you should be aware of two concerns we have.

One, whenever appropriations are not at the full-authorization level, awards to the individuals are prorated downward. So that means those students who are eligible right now under that blue line may have their awards lessened by the fact that they would be a guaranteed $250 grant for middle-income students.

The other inequity is that those poorer students who go to low cost institutions, such as community and junior colleges—and we enroll 35 percent of all postsecondary students or one out of every two freshmen—are limited to a one-half cost basic educational opportunity grant.

So unless tuition in the public sector ever gets to $3,600, students who are really poor and who choose to go to low-cost institutions, for whatever reason, would not benefit from that maximum award increase.

Another thing you should be aware of is that 80 percent of all students in this country go to public educational institutions. Only 20 percent go to private. This often is not brought to one's attention because we are always hearing about the plight of the private institutions.

Private institutions are holding their own. Studies are coming out now from the Brookings Institution, and from other policy centers, which document that the enrollment patterns in public and private institutions have held pretty constant over the past few years.

Let me just bring to your attention another item which has concerned me greatly.

It seems in all of this rhetoric about tax credits and student aid policies, it is often assumed that students are motivated only by the economic cost of where they go to school. However, students who do go to our institutions for example are enrolled, 50 percent of them,

in vocational and occupational programs which are not given anywhere in the 4-year college sector.

If students want a particular kind of education, then they go to institutions which provide it. The fact it is low cost happens to be a bonus, but cost is not necessarily the only motivating reason. Students who go and families who send their children to religious and private institutions, do so because of the value they put on the educational product of such institutions.

To them it is worth the cost for the perceived benefits they derive from such an education. That is why it is very difficult when one is dealing with a human being to totally believe in an economic model. However, I think there are some people who are marginal one way or another, who may have their choice limited by cost.

But this concern is most apparent with institutions which offer similar products. The competition would be between your public and private research universities, for instance, which offer basically the same product for a very different cost.

But students and families are motivated for other reasons than costs, when they attend or send their children to school. The other alternative for providing financial assistance to middle-income families is the tuition tax credit.

It is also an idea which is not well received by the education and labor committees. It has its problems. It has its costs and benefits.

One of the benefits of going the student aid route is that cost figures would continually be under the view of the budget committee and the people who care about the budget and the keeping of it intact.

In terms of the benefits to the individual, I am not quite so sure what they would be. Students now who want to receive student aid have to fill out a complex need analysis form; the costs are just overwhelming in terms of the administrative costs of extending this process to middle-income students.

The cost of a tax credit is very similar to the cost of the alternatives submitted by the administration and by Senator Pell and I believe the bill he is marking up today if he gets a quorum, will be even more expensive than he had originally planned.

So in terms of actual cost to the Treasury, it is not going to make that much difference which way you go if you are going to indeed address the problem.

The benefits of tax credit would be that they would let the consumer use that money the way he or she sees fit. There is now an eligibility within the guarantee student loan programs that families up to gross income of $31,000 are eligible for a subsidized guaranteed loan.

The President's proposal would increase this limit eligibility to $45,000. I question whether or not there is a need to do this when you consider that 90 percent of all students are already eligible at the $31,000 figure and when one considers that the $250 tax credit or subsidy would be enough to offset a great deal of this interest on a loan financed in the private sector. Also the way our tax structure is now, interest on loans is tax deductible. But tax credits can end at $45,000. They don't have to continue beyond a certain income level and they can be made refundable.

If you really are concerned about making a progressive tax credit, it is a possibility. You should be aware that when you increase the eligibility to participate in the BEOG program by 3.1 million students, there will be hidden administrative cost tacked on—to both the Government, in terms of administrative allowances to institutions at $10 a head, and to the institutions themselves which would probably have to increase the number of student aid officers. So it is just a very complex question and there are two ways you can go.

Mr. MITCHELL. May I interrupt you for just a moment? You indicated that the President or someone talked about income up to $40,000 or $41,000?

Dr. HAMILTON. $45,000.

Dr. TIRRELL. Guaranteed student loan program.

Mr. MITCHELL. Whose suggestion is this?

Dr. HAMILTON. This is the President's.

Mr. ROUSSELOT. They would be ineligible at $46,000?

Dr. HAMILTON. That is right.

Dr. TIRRELL. Interestingly enough, Mr. Califano says they would get about $250 a year in interest subsidy.

My comment and Dr. Hamilton's in her prepared statement is why not give them a tax credit, 40,000, 45,000 people know how to get loans and then you don't have the college problems and all the bureaucracy and so forth. It is hard for us to understand.

Mr. MITCHELL. Excuse me just a minute. Normally we let the whole statement get in, but I have been distracted. I just wanted to make sure that I am understanding you correctly. Perhaps if you would just finish the whole statement, then we will pose the question.

Dr. HAMILTON. The defaults right now in the guaranteed student loan program are in excess of $500 million which is $1½ billion. One out of every six individuals defaults on the guaranteed student loan.

When you extend the eligibility this way, instead of giving a tax credit which would offset much of the interest, and accomplish the same thing, you are really increasing the chance of people defaulting. There is a good argument that people with higher incomes will not default at the same rate as people with lower incomes.

However, there seems to be a question as to whether or not there is a need to subsidize, guarantee, and run a loan program when one is talking about people who have incomes greater than $30,000 a year. These people already probably have homes and mortgages and have good contacts with their local banks where they can very easily get a loan and use the tax credit as an interest subsidy to go to the school of their choice.

Basically, there is a difference between extending student aid and a tax credit in terms of its policy intent. A tax credit is an entitlement. What it is saying is that the Government thinks that education is a public good and we are going to guarantee that everybody has at least so much money to partake of this good.

A student aid grant or award is a transfer payment or welfare-type subsidy to help in the redistribution of social benefits. That, in itself, is a different kind of concept.

So I guess what I am saying is there are a lot of strawmen that have developed on both sides of this argument, that tax credits are terrible, that the student aid approach is the only way to go or vice versa.

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There are costs and there are benefits in both approaches, and the problem demands a political decision. I don't think that they really differ greatly in terms of benefits to the individual, both approaches have similarities. The Government would benefit certain ways if it adopted the student aid approach—in terms of its budgetary control item.

However, you have got to realize that the guaranteed student loan program is not an area that you can control. The defaults jump all the time; and in many respects it is just as uncontrollable as any tax credit would be.

Second, the Government bureaucracy which would be necessary to administer a program whereby 90 to 100 percent of the students would be eligible for student assistance, especially in our kind of institutions, is extremely expensive. Anybody who says it isn't, hasn't worked in HEW.

So I guess I will just stop at this point. I had a prepared statement, but I have sort of taken it out of context.

Mr. MITCHELL. No. You did not. It was a very excellent statement and it will be entered into the official record of the hearing.

[Testimony resumes on p. 11.]

[The prepared statement of Dr. Hamilton follows:]

PREPARED STATEMENT OF DR. BETTE E. HAMILTON

Mr. Chairman and members of the committee, I appreciate this opportunity to comment on the various alternatives before the Congress to assist middle-income taxpayers who attend college or who send their dependents. My name is Bette Everett Hamilton. I am associate director for governmental affairs of the American Association of Community and Junior Colleges.

The association represents about 1,000 two-year colleges located in 426 of the 435 congressional districts. Last year, 2-year colleges enrolled over 4 million credit students—which is about 35 percent of all undergraduate students and one out of every two freshmen students. So, the AACJC is very much interested in the issues before the Congress today. Official positions on policy matters are decided by our board of directors. While the association's Commission on Governmental Affairs has a recommendation on tuition tax credits for postsecondary education (Attachment B), our board has not had an opportunity to act on this recommendation. Thus, AACJC does NOT at this time have an official position.

SUMMARY

There is general consensus in the Congress, administration and the public that middle-income students and their families must be assisted in paying for the escalating costs of postsecondary education. Two main approaches are discussed: that of extending need-based student assistance programs and that of a tax credit. It is argued that the two approaches are different in their intent: A tax credit is an entitlement to partake of the public good and a needs-based student assistance award is a welfare subsidy to help in the redistribution of social benefits. The administration's proposal of guaranteeing middle-income students a $250 BEOG is similar to that of a flat tuition tax credit except that the student aid approach has hidden administrative costs unlike a tax credit. In extending aid to middle and higher income students and families, lower income students must not lose ground, pitting income class against the other.

THE PLIGHT OF MIDDLE-INCOME FAMILIES

It has been well-documented by Dr. Larry Leslie in his monograph, *Higher Education Opportunity: A Decade of Progress,* that the average American citizen is finding it difficult or impossible to keep up with rising college expenses. The percentage of middle-income students enrolling in college dropped by 22 percent between 1969 and 1975. Tuitions in community and junior colleges alone have increased by over 130 percent between 1970 and 1976. Even though incomes have risen modestly during this time—real discretionary income has evaporated due to

inflation and the increased cost of paying for all the additional necessities of life, such as housing, food, clothing, and government, through taxation.

President Carter, acknowledging the need to help middle-income families meet postsecondary educational expenses, has said that about $2 billion is available; $1.2 billion for fiscal year 1979 and $800 million for fiscal year 1978.

THE ALTERNATIVES

Basically, there are two approaches to meeting the needs of middle-income citizens struggling to pay for postsecondary education: (1) that of expanding need-based student assistance or (2) a tax credit.

The administration's proposal and that of Senator Pell, although considerably different, build upon existing programs and constitute one alternative.

Attachment A is a graph which compares the President's proposal for BEOG to current policy and to the first alternative suggested by Senator Pell.

Notice how the current BEOG program is targeted to low-income students. The maximum award, not exceeding one-half the cost of attendance, is $1,600 for students from families with incomes less than $7,400—with a rather sharp reduction of BEOG award as incomes increase—until the minimum awards of $200 cease at about the $13,500 level.

The administration's proposal is similar to the current financing strategy, however, the maximum grant award has been raised to $1,800 with $8,650 the cutoff point for the full award. Awards to students with incomes over $8,650 and under $15,000 are drastically reduced from the maximum award. (See the sharp slope of the line marked "A".)

Under the administration's proposal, students from families with incomes between $15,000 and $25,000 receive the *same guaranteed grant of $250*. The line is horizontal. This section of the administration's proposal does not differ in kind from the tax credit bills introduced in the Congress—except that the President's plan would, in the end, be more costly to administer—both to institutions and to the Government.

HIDDEN COSTS AND PROBLEMS

Consider, for instance, that the National Association of Student Financial Aid administrators estimates that it costs institutions about $30 per student to administer student aid programs. (Figures are not available just on administration of the BEOG program—but it is generally agreed that the cost is considerably higher than the $4 per student allocation requested in the President's fiscal year 1979 budget as an administrative cost allowance to institutions for BEOG recipients.) Under both the administration's and Senator Pell's proposal—with $25,000 as the income cutoff to participate in the BEOG program, approximately 3.1 million additional students will be eligible to receive awards. The administrative cost of expanding the eligibility in BEOG (at the $10 fee approved by Congress) would be in excess of $30 million collectively to institutions of higher education. The administration has remained mute on whether it will extend additional administrative allowances to cover this cost to institutions.

Under current law, students must pay a $10 processing fee to apply for any of the campus-based student assistance programs (SEOG, NDSL, CW-S). Both President Carter's and Congressman Ford's proposals contain increases in the college work-study program; Congressman Ford's also includes an increase in supplemental educational opportunity grants. Middle-income students, as do lower income students, would have to fill out a "need-assessment" form and pay the $10 processing fee to be eligible for these programs. Increases in campus based student assistance programs also are subject to the 4 percent administrative allowance to institutions.

Another thorny question relates to the complexity in the BEOG application form itself. With the projected extension of eligibility to participate in the BEOG program, a total of approximately 5.3 million students would have to complete the complex BEOG application. Can the administration indeed permit middle-income students to fill out only a short version to receive their guaranteed $250 grant and still require the lower income applicants to complete the standard cumbersome BEOG form?

The President's proposal would also add $70 million to the $847 million already appropriated to the guaranteed student loan program—making students from families with incomes up to $45,000 eligible for a loan. The interest subsidy on

these loans could equal as much as $250 a year, while the student is in school, and support approximately 260,000 new loans, according to testimony made by Secretary Califano before the House Committee on Ways and Means. The administrative allowance to institutions of $10 per student would cost the Government an additional $2.6 million.

Senator Pell's proposal, on the other hand, appears to be more progressive than the administration's because it provides for a gradual decrease in the amount of the BEOG award until the $200 figure is reached, when the adjusted income approaches $25,000. Applicants would fill out the standard BEOG form but be assessed at a flat 10.5 percent rate. However, Senator Pell's bill does not aid those with incomes above $25,000.

TAX CREDITS

The second major approach to assisting the middle-income citizen in paying postsecondary education expenses is that of a tax credit. *Tax credits are very different from need-based student assistance in that the former is an entitlement to partake of the public good and the latter is akin to a welfare subsidy to help in the redistribution of social benefits.*

However, tax credit can be tailored in much the same fashion as student assistance approaches. Some argue that tax credits can accomplish all the claims of student assistance proposals and do so with less redtape and with less cost to the institutions, to the recipients (who would not have to pay a student aid processing fee) and to all the taxpayers who must pay the costs of the Federal bureaucracy.

The argument that tax credits would cost more to administer on the Federal level than an expansion of need-based student assistance is not valid. How can one seriously believe that HEW can administer and monitor a new guranteed $250 BEOG program at a lower cost that IRS can deal with another tax credit program—when it already administers 80 other tax credit programs?

Another criticism voiced by Secretary Califano in his testimony before the House Committee on Ways and Means is that tax credits of say $250 to $500 would not go far enough in giving those with incomes above $25,000 the necessary money to finance a postsecondary education based on choice. Such a credit, however, would offset much of the yearly interest on a college loan financed in the private or state sector—which, in the end, would also have full responsibility for the collection of such debts. Under current tax laws, the interest from such loans whould also be tax deductible.

Is there really a need for the Federal Government to guarantee or subsidize loans to students with incomes up to $45,000? As of June 30, 1977, defaults on student loans were in excess of $500 million and will exceed $129 million for fiscal year 1978.

Federally subsidized and guaranteed student loans, however, should be continued to maximize choice for those Americans with incomes below $30,000 (the current income ceiling) who may have difficulty securing loans in the private sector because of limited collateral or credit history. However, families with higher incomes should have less difficulty finding the needed capital for loans, in fact, experience suggests that such creditors are the favored patrons in private banking circles.

In effect then, the expansion of a tax credit to higher income families saves the Federal Government money by eliminating the need to finance loans or to pay for any future defaults from such loans. The same credit aids the higher income family in offsetting much of the interest subsidy on a loan financed by the private or state sector.

A PROBLEM OF EQUITY

Tax credits have another major advantage of considerable importance to 2-year colleges which enroll the majority of this Nation's low-income students, many of whom are from minority groups. Tax credits, if targeted at the middle and higher income level, can address the real financial needs of these groups, while not taking from the current student assistance awards which go to lower income students. We are very concerned that an extension of need-based aid into the middle-income range and even into the high executive income range (in the case of the expansion of the GSL up to $45,000 income level) will take away from the current level of awards to the poor—most of whom struggle to go to even low-cost institutions. *Under present law, if appropriations are not sufficient to match authorization levels, "all" awards are pro-rated downward among*

all eligible recipients. Thus—to give middle-income students a guaranteed $250 BEOG award—students with incomes lower may be penalized compared to what they would have received under existing guidelines.

Should a student aid approach be accepted over that of a tax credit, it is imperative that those in most need receive their maximum benefits before assistance given to those with higher incomes. *If middle-income students are to be guaranteed a $250 BEOG grant by the President and Congress, lower income students "must not" suffer from decreased aid awards.*

CONCLUSION

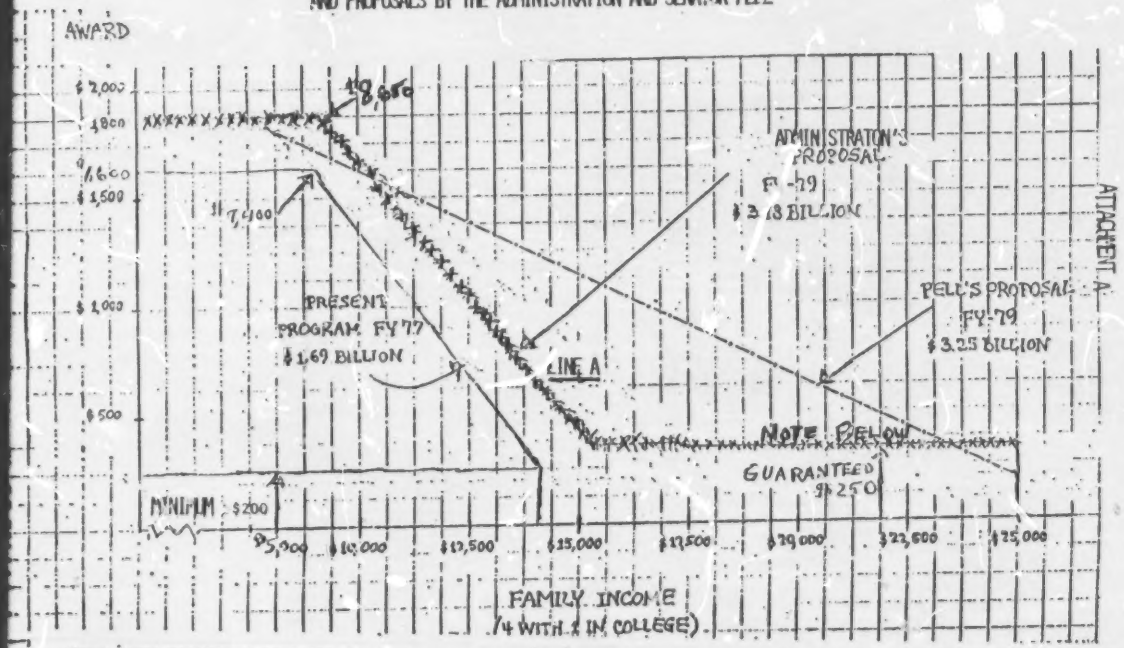
There are two possible approaches to meeting the needs of middle-income students and their families who find it increasingly difficult to finance a post-secondary education—both approaches have their merits and their costs. Expanding the eligibility to participate in student assistance programs to middle and higher income students is one alternative. Congress, should it choose this route, must consider (1) the problem of guaranteeing that lower income students will not be the losers—and (2) must realize that there are very real hidden costs to applicants, institutions, and to the Government in extending such aid. Any advantage to such an approach would not necessarily go to the recipients of such aid but rather to Government itself—since these education programs would continue under the jurisdiction of education-related congressional committees and agencies and be subject to the appropriation process.

Tax credits, however, are a viable alternative. Of similar cost, they would result in minimal redtape, be less expensive to administer at the institutional and individual level—and at the Federal level. Tax credits can be tailored to accomplish the same goals as extending student aid programs to middle and higher income students and families in any manner so desired by Congress. What cannot be denied is that there is a consensus by Congress, the administration and the public, that one of these alternatives, or a combination thereof, must be enacted in the very near future.

COMPARISON OF BEOG EXPENDITURES

FOR FY 77

AND PROPOSALS BY THE ADMINISTRATION AND SENATOR PELL



NOTE - THE GUARANTEED $250 FOR ALL STUDENTS FROM $15,100 TO $25,000 WOULD COST 700 MILLION - SEC. CALIFANO 2/9/78

ATTACHMENT A

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ATTACHMENT B

AACJC COMMISSION ON GOVERNMENTAL AFFAIRS

(December 9, 1977)

TAX CREDITS FOR POSTSECONDARY EDUCATION TUITION

The AACJC Commission on Governmental Affairs is deeply concerned about the present financial plight of our Nation's middle-income families. These families—dedicated to the benefits of higher education for their children—today find themselves on a seemingly endless economic treadmill. Inasmuch as their dependents are generally ineligible for significant amounts of Federal or State student financial support, they watch their tax dollars provide needed student assistance to the more economically disadvantaged, while they themselves are unable to find the necessary resources to meet their own children's rising college costs. The Commission believes that an equitable system of Federal income tax credits for tuition for postsecondary education can provide meaningful relief for these families. Moreover, it is the view of the Commission that such a program is a necessary complement to our present programs of financial support to economically disadvantaged students; will increase educational opportunities for the people of our Nation; will help maintain family relationships; and will provide a stable system of educational funding for postsecondary students.

Therefore, the AACJC Commission on Governmental Affairs supports prompt Congressional action to establish an equitable system of tuition tax credits for postsecondary education for upper, lower, and middle income families.

Mr. MITCHELL. How do you define middle-income families?

Dr. HAMILTON. That is the greatest question because everyone else has a different income level in mind. I would say middle-income families today would be between $15,000 and $30,000, and I only say $30,000 because of the inflation, but in my mind that is what I am thinking about.

Mr. MITCHELL. $15,000 to $30,000.

Mr. ROUSSELOT. Is that family income?

Dr. HAMILTON. Yes.

Mr. MITCHELL. Under any of the proposals that you have addressed, we are talking about a guarantee in terms of either student aid or a tax credit of between $200 and $250 per family. Is that right?

Dr. HAMILTON. That is right.

Mr. MITCHELL. Will that lower figure have any significant impact in terms of helping a family get a child through college? What is the cost? What is the average cost per year?

Dr. TIRRELL. There is a researcher in this room who did a study in Wisconsin that showed a differential of $100 would make a difference including drawing in additional new people from families, women trying to return to the work force and the like. So there is some evidence as little as $100 can make a difference.

Mr. MITCHELL. Therefore, a credit of $200 to $250 would be an incentive for a family to continue a child in school?

Dr. TIRRELL. Yes. Of course, nowadays, sir, the majority of the people are outside the 18- to 22-year age bracket. The average age for instance in our institutions is 27. But the 18- to 22-year-old is the minority now; nontraditional so-called are the majority.

Dr. HAMILTON. About 53 percent of our students are women, many over 35, returning to school for retraining. Some are displaced homemakers, recently divorced, widowed, looking for an educational experience which would prepare them to reenter the world of work.

Mr. ROUSSELOT. Fifty-three percent of the student body?

Dr. HAMILTON. Yes.

Dr. TIRRELL. Of our 4 million.

Dr. HAMILTON. So a tax credit for this kind of individual who is already an adult, would make a lot of sense to that kind of a person, because it would be in keeping with the adult world for one thing.

They wouldn't have to undergo a really strict need analysis process; they probably have dependents themselves who need clothing and schooling. The projected discretionary income determined by student aid formulas with which one is expected to finance a postsecondary education is really not realistic for adults.

Mr. MITCHELL. I have two other questions and then I will turn it over to my colleague. First of all, I would like to get a copy of that study which shows that a $100 subsidy is an incentive for attending college.

Dr. TIRRELL. Dr. Stampen is right here.

Mr. MITCHELL. If you could forward two or three copies of the study, at your convenience, and if it is not too lengthy, we can reproduce that for other members of the task force.

What is the administrative cost associated with the BEOG program?

Dr. HAMILTON. That is the greatest held secret in the world in terms of what it actually costs them.

Mr. MITCHELL. However, we speak very blithely about the awesome administrative cost and very few people have been able to pay the fee.

Dr. HAMILTON. If you look for the fastest-growing segment of the Office of Education, you will find it is the Bureau of Student Financial Aid and the office of the basic educational opportunity grant. Just count the numbers of people who work there.

If we take Senator Pell's proposal, the sliding line, everyone would fill out a needs analysis form. Some of this cost can be offset by their computers by using a similar formula. It would involve additional workers but the costs would probably be less than having a new $250 flat grant program as the Carter administration has proposed.

Dr. TIRRELL. Can I give you two figures? The Congress has agreed to pay every institution $10 for each BEOG student. That is $31 million at least. The National Association of Student Financial Aid officers said it costs about $30 per student to process them for financial aid. If you add 3.1 million students there is $90 million it is going to cost the institutions.

We still haven't had HEW, OE, run it through the computers and all of that bureaucracy. That is some where on top of that.

Mr. MITCHELL. Are you saying that the administrative cost figure is in excess of $50?

Dr. TIRRELL. At least.

Dr. HAMILTON. The interesting part about this concept is that the cost is also shared by the applicant. If the applicant wants any campus-based student assistance, such as college work study, to augment the basic grant, and in our kinds of institutions they are limited to half cost in BEOG, the student must pay a $10 processing fee.

That person has to pay $10 for the privilege of being poor enough to participate. There are costs to the individual, costs to the Government and costs to the institutions.

Mr. MITCHELL. Congressman Rousselot.

Mr. ROUSSELOT. Thank you, Mr. Chairman.

What do you estimate the average cost of college to be today? You talked about it, but we haven't gotten a number. What do you say it is?

Dr. HAMILTON. It depends on whether it is public or private institution and where it is. For instance, community colleges are free in your own State of California.

Mr. ROUSSELOT. They are not free. They are paid for by the taxpayer. What do you say the per pupil cost is?

Dr. TIRRELL. Two-year public institutions across the country run around $1,500 to $1,800.

Mr. ROUSSELOT. $1,500 to $1,800 a year?

Dr. TIRRELL. Yes, sir.

Mr. ROUSSELOT. Would any of this aid go to those groups?

Dr. TIRRELL. It could, depending upon how it is designed and targeted.

Mr. ROUSSELOT. They would be eligible?

Dr. TIRRELL. Some of the bills exclude student aid. In other words, if you have student aid, you cannot get it. So therefore they wouldn't.

Mr. ROUSSELOT. But the taxpayers of that State are already paying for it, so they would get what kind of aid? What would they be eligible for under your suggestion?

Dr. TIRRELL. In Senator Roth's bill they could get $250; S. 311, that is the one we favor.

Dr. HAMILTON. In addition to tuition you have books and expenses that are itemized.

Mr. ROUSSELOT. What do you show as the private costs, average costs?

Dr. TIRRELL. Two-year institutions, which we are most familiar with, will run $3,000 to $3,200 range. Then the public, 4 years, some of the other people here in the room could answer, but it is starting to push $2,000.

Mr. ROUSSELOT. Two years?

Dr. HAMILTON. No, 4 years.

Mr. ROUSSELOT. Per year?

Dr. HAMILTON. Per year. Publics can go from $4,000 on up. This morning I heard someone say $7,000.

Mr. ROUSSELOT. At some of the private institutions it is clearly that. Stanford, USC.

Dr. HAMILTON. Stanford is $11,000 now.

Mr. ROUSSELOT. $250 tax credit is going to be incentive to send or not to send?

Dr. TIRRELL. I think you talk about the Stanford person, you know, I had——

Mr. ROUSSELOT. No. Let's scratch Stanford.

Dr. TIRRELL. I had four children in college in 1975. I had to borrow money. Rather than, you know, go through all of this "Mickey Mouse" that we just had tax credit $250, I could have itemized much of the interest on those loans during that cash flow period where I had four in college. Some are that high. Yes, it would be a help.

Dr. HAMILTON. In terms of incentives——

Mr. ROUSSELOT. Let me ask you a question. That was an incentive to you?

Dr. TIRRELL. If I had had it, it would have been an incentive.

Dr. HAMILTON. I think in terms of actual incentive to bring new people into this market, I don't really think you are going to get that many people except those on the marginal border, except perhaps women thinking about going back to school.

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Mr. ROUSSELOT. Part of this 53 percent?

Dr. HAMILTON. And growing.

Mr. ROUSSELOT. Basically above and beyond the 18 percent.

Dr. HAMILTON. Yes.

Dr. TIRRELL. We have 75 percent of the Chicanos in postsecondary institutions and many of those kind of families, $250 would be a significant assistance.

Mr. ROUSSELOT. I would like to pursue a little further Mr. Mitchell's question relating to the statement that it is very expensive to administer a direct grant program. What percentage of costs, you say you can't get any figures from HEW—what is your guess as to what it is?

Dr. HAMILTON. I would guess it would be at least as expensive to administer per student in HEW as it is at the institutional level.

Mr. ROUSSELOT. You mean at least $38 to $40 a student?

Dr. TIRRELL. No, $10.

Dr. HAMILTON. $10 is the administrative allowance authorized by the Congress to institutions for BEOG recipients. Thirty dollars is the cost of administering the combined student aid package when the student receives some aid from the campus-based programs. In addition to the BEOG, this includes the SEOG, the college work-study program and the loan programs. That cost is about $30 a student.

In terms of the HEW figure they seem to think that it costs institutions about $10 just to keep track of BEOG money. If it costs institutions that much, it costs HEW at least that much and maybe more.

Dr. TIRRELL. If I could respectfully suggest, HEW has had a contract with the American College Testing out of Iowa City for the last 3 years, and I couldn't see why a Budget Committee of the Congress could not get that figure. Nobody seems to be coming forth with it. But they have had a contract for 3 years. The cost must be written down someplace.

Mr. MITCHELL. I just have one last question. Are you saying that the women participation in the BEOG program is 51 to 52 percent and growing?

Dr. HAMILTON. In our kinds of institutions which are local and low cost.

Mr. MITCHELL. Apparently you are talking about the community and junior colleges. We have an abundance of those in my home district in Maryland; for example, the Community College of Baltimore and Essex Community College.

Is the racial composition of this 51- to 52-percent female population primarily white, and if so, what is the percentage of minorities? Does anyone have any data on this question?

Dr. HAMILTON. Yes. I am sure it is depending on where it is. It is women everywhere. Depending where it is located.

Mr. MITCHELL. Would any national group associated with community colleges have some specific data to show that on the average this 51 or 52 percent is made up of x percent Spanish, x percent black? Do you know where I might get that information?

Dr. TIRRELL. I would be happy to provide for the record. My memory tells me that of the people getting assistance, 57 percent of them are minorities and I would be happy to send that. I am not sure whether it is broken down for women as well.

Mr. MITCHELL. I would appreciate that information. But that is slightly different from the question I raised. I am talking about the general female population, not just those getting assistance.

Dr. HAMILTON. We have found that in breaking down some of our populations by race and sex, and so forth, that the percentage of women who are minorities is greater than the percentage of minority males.

So that is an interesting characteristic and I would say that except for Chicanos, where we have a cultural bias operating against women, minority women are reentering school at a similar rate as white women. So it is an interesting development.

Mr. MITCHELL. Thank you very much. I hope you make your plane on time. I am sure your husband is more at ease now.

Dr. HAMILTON. Thank you very much.

[Questions submitted by the staff and replies by Dr. Hamilton and Dr. Tirrell follow:]

REPLIES TO QUESTIONS BY DR. BETTE E. HAMILTON AND DR. JOHN TIRRELL

Question. Under an $1,800 maximum grant level, the President's proposal would give up to $200 more per year to the poorest students and a minimum $250 per year to students whose families have incomes up to $25,000. The Roth proposal would give nothing more to the poorest students—those whose parents pay no taxes—and would provide $250 to all nonpoor families, including the very rich.

Now a central element of Federal Policy is to provide more equality to higher education.

Isn't the President's proposal more consistent with this goal than the Roth proposal?

Answer. The President's proposal will not make any grants unless the Appropriation Committee and Congress approved the funds each year. If the President's proposal were approved and the new funds were not appropriated, thousands and thousands of low-income students we represent would have their current grant "prorated" down. For that reason (to protect our current grantees under BEOG) we believe a separate program for the middle incomes is best. Tuition tax credits can be "targeted" in any group the Congress wants, i.e., limit it to $25,000, $30,000, or any figure.

Question. Two Federal goals for postsecondary education are access to higher education and choice of institutions in one's schooling. Currently the lowest income students attend the lowest priced institutions—those which are generally of less value such as proprietary and vocational schools, or 2-year public colleges. And the higher priced institutions disproportionately enroll students from higher income families.

Which of the two approaches which we are discussing this afternoon would best assist us in achieving these two Federal goals of access and choice?

Answer. We believe there is no evidence for your first two assumptions that:

1. Low-income students only go to low-priced institutions, and
2. Two-year public colleges are of less value.

With the $3 billion plus Federal student aid, the higher priced institutions enroll mostly high-income students for other reasons, such as admission policies, relying on culturally biased tests, social stigmas, peer pressure—to name a few.

Question. One common argument used earlier to support the need for a tuition tax credit was that rises in middle-class incomes have not kept pace with rises in tuition charges. However, a study by CBO using survey of current business data, shows that middle-class family incomes have risen by 88.6 percent over the years 1967 to 1976, while tuition charges rose by 75 percent during this same time.

In view of this data, does the argument of need of the middle income still hold?

Answer. We believe this is right but the inflationary increases on food, shelter, fuel, etc., have left less money for college tuition. Thus, the middle incomes are requesting relief from the Congress.

Question. The administration's proposal of $1.2 billion would add $990 million for basic educational opportunity grants, $150 million to the college work study program and $70 million to the guaranteed student loans program.

Would you comment on the administration's wisdom of choosing these particular programs for increases, and would you also comment on the distribution of this $1.2 billion?

Answer. The total for GSL in fiscal year 1979 would be over $900 million (mainly going to bankers to guarantee them the payment of interest) which is twice as much as people under $5,000 income would get in BEOG grants.

Other than that, it appears to be a wise distribution of funds.

Question. Federal provisions for higher education programs such as special services to the disadvantaged, national direct loans and college work study assist large numbers of low-income students. The proposed middle-income assistance act would provide grants and loans to large numbers of middle-income students, as well as continue benefits to low-income students.

If this proposal were to be enacted, would Federal benefits to all students—low and middle income—be relatively balanced, based on students' ability to pay college costs and on their representation in the population.

Answer. The President's proposal—as amended by the House Postsecondary Subcommittee—does almost nothing for those over $20,000. Thus, the pressure will continue by those over $20,000 (who pay the bulk of the taxes) for college tuition tax credits—and Congress will agree.

The President's bill does nothing for those students who attend college part-time (less than one-half time). The Senate bill, H.R. 3946, would assist part-time students and graduate students in 1981.

Question. Independent student's participation in higher education is growing rapidly. Such students are increasing as a proportion of total college students enrolled. Under the President's proposal for basic grants, these students current poverty index of $1,050 is increased to $3,400 to offset a portion of their contribution toward their education costs.

(*a*) Is this a reasonable change in the poverty index for this category of students?

(*b*) How would this change impact on such students' ability to attend college?

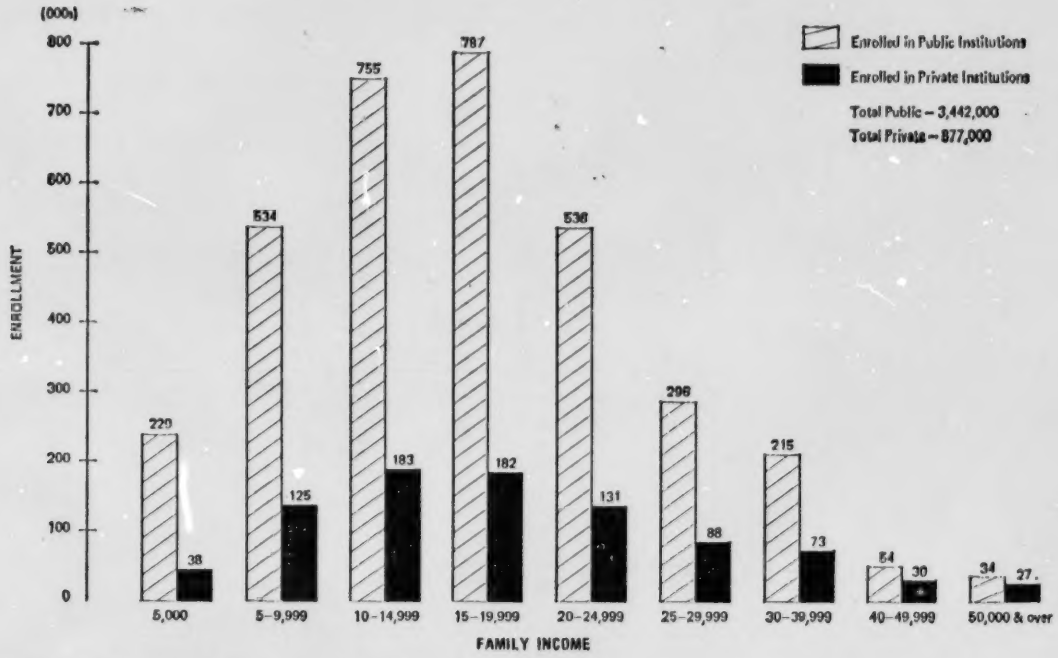
Answer. (a) Yes, although it would be better to change to the BLS low index. This would put the four programs BEOG, SEOG, CWS and NDSL on the same "needs" analysis.

(b) More would go full-time, more would enroll.

There have been several cases where a child is eligible for student aid—while his parent (usually his mother) is not even though they have the same expenses and the same family income.

Please see the attached graph which indicates the large number of heads of households and/or wives, some 4,319,000 of them, who were enrolled in schools in the spring of 1976. Over 1,864,000 of these adult, independent students, made less than $15,000 a year, but are severely penalized by c rent student aid policies designed only for dependent children.

ENROLLMENTS OF HEADS/WIVES (ADULTS) IN POSTSECONDARY SCHOOLS BY INCOMES – SPRING 1970



AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES
One Dupont Circle, N.W. Washington, D.C. 20036

Question. The President's proposal for basic grants raises the Orshansky poverty indices now used by $650 for each family size category.

What is your judgment on this size increment?

What about allowing differential increments by family size? Is such a concept defensible?

Answer. See previous question on change to BLS law. This recognizes a problem but only does a partial ($650) solution!

The number of children in a family and the number of dependents enrolled in college at the same time are already taken into considerable consideration in both the BEOG program, which uses the Orshansky poverty index, and the campus based programs, which use the Bureau of Labor Statistics formulae. There is no need for a differential increment allowed by family size but rather a more realistic appreciation of necessary family assets which are severely and unrealistically taxed in the Orshansky method.

Question. Some opponents of tuition tax credits argue that a tax credit merely allows a family to pay less in income taxes. They oppose this measure on the basis that this is too indirect a way to really assist students going to college in that there is no assurance that a family, paying say $300, less in taxes for example, contribute an additional $300 to its child in College.

Do you think there is any truth to this argument?

Answer. Only cynics that do not believe in the family unit or who do not want to encourage family interdependence believe this.

Question. These same people also argue that tuition tax credit will not induce as many students to attend college as a more direct subsidy, because the tax credit cannot be received until after tax returns are filed—up to 6 months after a student enrolls in school.

Do you think there is any substance to this argument?

Answer. These people are not familiar with the actual circumstances. The tax credit is proposed for August 1, 1978, and could be received between January 1, 1979, and April 15, 1979.

(1) All financial aid formulae presuppose a major parental contribution which may or may not actually be given the student.

(2) In addition the tax credit approach is a more rational way of aiding adult students, those over 24, who are fast becoming the new majority in postsecondary education. See the attached table, compiled from an unpublished run of Bureau of the Census statistis.

NUMBER OF FAMILY MEMBERS ENROLLED BY INCOME IN POSTSECONDARY SCHOOLS SPRING 1976

[In thousands]

Income	Grand	Public (under aged)				Private (under aged)			
		Total	18	18 to 24	Older	Total	18	18 to 24	Older
Under $1,000	54	50	0	19	31	4	0	3	1
$1,000 to $1,999	41	34	0	14	20	7	0	1	6
$2,000 to $2,999	75	61	1	14	46	14	0	6	8
$3,000 to $3,999	121	100	1	29	70	21	0	6	15
$4,000 to $4,999	151	128	0	50	78	23	0	11	12
$5,000 to $5,999	168	140	3	48	89	28	1	8	19
$6,000 to $6,999	212	170	3	59	108	42	0	18	24
$7,000 to $7,999	216	174	1	62	111	42	0	18	24
$8,000 to $8,999	220	184	1	62	121	35	0	15	20
$9,000 to $9,999	272	210	1	76	133	62	0	26	36
$10,000 to $10,999	285	236	3	77	156	49	0	25	24
$11,000 to $11,999	298	237	3	100	134	61	1	21	39
$12,000 to $12,999	353	281	2	91	188	72	0	24	48
$13,000 to $13,999	335	270	2	107	161	65	0	25	40
$14,000 to $14,999	361	271	2	105	164	90	1	45	44
$15,000 to $15,999	412	320	7	110	203	91	1	53	37
$16,000 to $16,999	363	283	3	110	170	80	1	35	44
$17,000 to $17,999	400	321	5	135	181	79	0	41	38
$18,000 to $19,999	698	529	5	245	269	169	0	84	85
$20,000 to $24,999	1,583	1,225	14	619	592	358	3	209	146
$25,000 to $29,999	1,222	897	15	543	339	325	3	212	110
$30,000 to $39,999	1,204	876	7	597	272	328	4	231	93
$40,000 to $49,999	449	302	3	218	81	147	0	109	38
$50,000 and over	422	232	7	175	50	190	1	153	35
Grand totals [1]	9,912	7,531	89	3,665	3,767	2,381	16	1,369	996

[1] These are Census Bureau Data—they do not include students enrolled in postsecondary vocational-technical programs or in other curriculums not transferable to 4-year colleges.

Question. One argument against college tuition tax credits is that it would induce tuition increases since many institutions now face severe funding shortages in such areas as faculty pay and capital expenditures.

Do you have any evidence to support or reject this concern?

Answer. The last resort at anytime is a raise in tuition. At the present, with "steady state" and a decline in enrollments, it would only be done as a last desperate measure.

Question. Those who believe this argument are concerned about the impact of increased tuition charges on low-income students, especially those who would not receive any tax credits at all.

In view of this concern, what would be necessary to protect the very poor if tuition increases were induced by tuition tax credit?

Answer. They would be if it was made refundable—as in the Senate bill.

If you could convince your colleagues in the Congress to remove the "immoral" one-half cost limitation in BEOG (which only hurts low-income students going to low-cost colleges) there would be almost no concern.

In fact, research suggests that the current student aid programs which are heavily "tuition sensitive" as opposed to "need sensitive," are encouraging higher tuitions in the public sector which as the effect of squeezing middle-income students who do not proportionately share in student aid moneys.

Question. Independent students' participation in higher education is growing rapidly. Such students are increasing as a proportion of total college students enrolled. Under the President's proposal for basic grants, these students' current poverty index of $1,050 is increased to $3,400 to offset a portion of their contribution toward their education costs.

Is this a reasonable change in the poverty index for this category of students?

How would this change impact on such students' ability to attend college?

Answer. Answered previously.

Mr. MITCHELL. Let me advise you that the House goes into session at 3 p.m. and shortly thereafter there will be a quorum call. That is inevitable. We are in the Capitol. We simply release and run over to make the quorum call and come back.

Our next witness is Dr. Margaret S. Gordon, associate director of the Carnegie Council on Policy Studies in Higher Education. We are delighted to have you here. Thank you so much for taking the time to come. You may simply submit your statement, if you wish.

Mr. GORDON. And speak for 5 minutes?

Mr. MITCHELL. No, that is not correct. You may submit your entire statement for the record and highlight your statement, or if you care to, present the statement in its entirety.

STATEMENT OF DR. MARGARET S. GORDON, ASSOCIATE DIRECTOR, CARNEGIE COUNCIL ON POLICY STUDIES IN HIGHER EDUCATION

Dr. GORDON. I prefer to speak from notes and submit my entire statement.

Mr. MITCHELL. Fine.

Dr. GORDON. I think it is really kind of boring to listen to a statement being read. It is a little too long.

Mr. MITCHELL. It depends on whether or not the person speaks in docile tones. The statement is officially submitted for the report.

Dr. GORDON. I am very pleased to be here to present the views of the Carnegie Council. When I testified this morning before the Subcommittee on Postsecondary Education, I could assume that the members who were there were familiar with the work of the Carnegie Commission and its successor, the Carnegie Council.

I don't make that same assumption about the House Budget Committee, many of whose members are not concerned with educational

matters constantly. So I would like to say a few words about the Carnegie Commission and the Council, which is the successor to the Commission.

The Carnegie Commission was established in 1967 as a temporary 5-year or 6-year body, by the Carnegie Foundation for the Advancement of Teaching in New York, to conduct studies and make reports relating to the future of higher education in the United States. It had many distinguished members and was chaired by Dr. Clark Kerr, the former president of the University of California.

The Commission was succeeded in 1973, after it submitted its final report, by the Carnegie Council on Higher Education, which is also chaired and directed by Clark Kerr. It has a membership somewhat similar to that of the Carnegie Commission but the individuals are different.

The Commission and the Council both have been concerned with many aspects of higher education, but a very central concern from the beginning has been the Federal role in relation to postsecondary education. The Carnegie Commission came out in its first report in 1968 in favor of a need based student aid program as the primary means of Federal assistance to higher education.

We support Federal expenditures for research, but we have opposed institutional aid to higher education.

We believe that the Federal Government has a special responsibility to encourage the equality of opportunity in higher education, especially in the view of the differences of income levels among the States, and we also believe that by making student aid the central vehicle for Federal support, student choice is encouraged and interference with the autonomy of institutions of higher education is minimized.

May I say, in addition, before I go on to substance, that we do not speak for higher education. We speak about higher education and about the issues, but we are not spokesmen for higher education in the same sense that the various associations, including the AACGC are spokesmen for higher education.

The Carnegie Council has not had an opportunity to discuss the President's recent proposals because we haven't had a meeting since they came out. We have discussed tuition tax credits. To the extent that I am taking positions today, they are positions that are based on reports that we have published in the past for the most part, although Clark Kerr read over my draft of my testimony, and he concurs in what I have to say.

Let me say that, in general, we agree with the main thrust of the President's proposals and this is particularly because they come at a time when there is very serious consideration of tuition tax credit proposals in the Congress.

We have a very substantial history of opposition to tuition tax credits. The first report of the Carnegie Commission issued in 1968 objected to tuition tax credits on the ground that they were regressive, helping wealthy families more than poor families. We had a more elaborate statement in one of our more recent reports called, "The States and Private Higher Education," which was published in 1977.

We had a number of reasons for taking this position on tuition tax credits and I think it is important to get them on the record, because

the Carter administration proposals are clearly designed as an alternative.

We think it would be premature for Congress to consider tuition tax credits at this time when next year in 1979 the whole question of student aid will come up again for review in connection with the revision of the higher education provisions.

But we also think that there are important reasons for being concerned about tuition tax credits. They are not related to need and they tend to be regressive, depending on the details. The Roth bill is more regressive than, let us say, the Packwood-Moynihan bill, because the Roth bill includes no refunds to families who are in lower tax brackets. In fact, it has been estimated, and I think carefully that 79 percent of the benefits under the Roth bill would go to families with $18,000 or more in income.

Another extremely important consideration is that the cost to the U.S. Treasury is exceedingly high in relation to the amount of benefit that any individual family will get and when you consider that tuition at a place like Stanford, which was mentioned earlier, is up in the $4,000 range now, $250 is not much of a contribution toward that tuition expense. The result is that once you open the legislative door to this approach to student aid, you are going to have an enormous amount of pressure to increase the amount of the tuition tax credit in future years, and the ultimate cost could therefore be much higher than anything that is being discussed today.

Another important consideration, I think, is that there will be a strong incentive for institutions to raise tuition by the amount of the tax credit. This danger is not nearly so present when you are talking about need-based student aid because if a low-income student gets a grant, that is not going to affect the capacity of middle- and upper-income students to pay tuition and, therefore, the institution is inhibited from raising its tuition just because there is some need-based student aid available, but when you start talking about a tuition tax credit, which is going to benefit mostly the middle- and upper-income families who do pay full tuition by and large, then there is a strong incentive for the institution to raise tuition by the amount of the tax credit in which case the benefits flow to State government budgets in the case of public institutions and to private institutions.

Furthermore, there is a lot of concern these days about the survival of private higher education and we think it should survive. It is going to be difficult for private institutions when enrollment starts declining in the 1980's.

But a tuition tax credit is an extremely inefficient way to help private higher education because the bulk of the benefits are going to go to the far more numerous families whose children attend public institutions. You tell me when you want to obey that buzzer.

Mr. MITCHELL. Why don't we go for another 5 minutes and then stop?

Dr. GORDON. All right. So much for tuition tax credits. Now, I come to the President's proposals, and there is now a bill, H.R. 10854, introduced by Representative Ford, which I just saw for the first time this morning. It is very much along the lines of the Carter administration proposals which I read about before I came east.

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We generally endorse the concept of liberalizing family income eligibility conditions in the basic educational opportunity grant program and in the college work study program. But we have very strong reservations about three aspects of the administration proposals.

The first is the flat $250 grant which would go to families or students from families in the income range of $16,000 to $25,000. We have reservations for a very different set of reasons, about the large increase in the family sized exclusion for the single or independent student. And we have very strong reservations about the proposal to extend the family income range for interest subsidies in the guaranteed student loan program as high as is now being proposed.

Let me go into a few details about our reasons for this. On the $250 flat grant, the first objection is that it departs from the principle of family contribution according to need, which we would like to see remain the cornerstone of Federal student aid policy.

Second, we think it reaches too high into the income distribution. We have said some things about the appropriate amount of need in relation to family income in the past. I think we are prepared to relax our criteria now, because the appropriations for the basic educational opportunity grant program have been increased sufficiently so that it is reaching the point of being an entitlement program, which we think it should be; that is, appropriations should be adequate in relation to need.

We have said in the past that we thought the family eligibility conditions in the BEOG program should gradually be liberalized but not in such a way as to jeopardize the amount of aid going to low-income students. We have now reached a point, I think, where some relaxation can be considered. But even in 1977 or 1978, a family with $25,000 of adjusted gross income is in the top fourth of the income distribution.

We think that providing some aid to people who are in the lower two-thirds of the income distribution might be appropriate. But with some provision—we are working on this now, and it hasn't been in our reports to date except to some degree in the one on the States and Private Higher Education—that there ought to be an expectation of a contribution from the student's own earnings in relation to student aid.

The $250 flat benefit in my judgment would have much the same effect in inducing institutions to raise tuition as the tuition tax credit would have; and, therefore, whom it would ultimately benefit is very similar.

Furthermore, it involves the same sort of danger as a tuition tax credit that once you open the door to this approach, there is going to be enormous pressure to increase the amount involved and to increase the upper ceiling on family income which might be eligible for that kind of grant, so that the ultimate cost could well be much higher than anything that is being discussed now.

Mr. MITCHELL. Dr. Gordon, may I interrupt you at that point? If you will retain your thought, we will scoot down the hall and come right back after 5 minutes. This is our school system, which requires us to register to show that we are not playing hookey from school.

Dr. GORDON. I know about that. I watch my Congressman's record, too.

[After recess.]

Mr. MITCHELL. If we can now resume our hearings.

The B–1 bomber is the first matter of discussion this afternoon. I assume that because of the topic of discussion, attendance at this hearing will be very slim. I don't need to hear the debate on the B–1 bomber. Dr. Gordon, please continue.

Dr. GORDON. I would like to make one more point about the $250 flat benefit. This was impressed on me this morning, because one of the witnesses before the subcommittee was from Fordham University and he pointed out that that flat $250 benefit would be much more advantageous relatively to the student attending a low-cost public institution than to the student who attends a private institution with high tuition. He anticipated that this would force a shift of students from Fordham to the City University of New York, for example, which I thought was a rather interesting point.

We would argue that there are better ways of aiding middle-income students. Senator Pell has suggested one way. In our recent reports we have rather stressed the desirability of increasing Federal appropriations for the State student incentive grant program. This is the program Congressman Mitchell, as you know, under which the Federal Government matches amounts appropriated by the States for State scholarship programs. This program has the great advantage, that for every Federal dollar the States are induced to appropriate some dollars of their own.

Between 1972–73 and 1976–77, the Federal appropriation for SSIG rose from zero to $44 million, while the State appropriations rose from slightly more than $300 million to slightly more than $600 million in that same period. This means that the State appropriations rose almost seven times as much as the Federal. That doesn't mean that the Federal matching grant was the sole factor at work there, but it was certainly a factor.

Mr. MITCHELL. May I interrupt you for one question?

Can the State's match be in kind also, can't it? It is not just flat money. It can also be an in-kind contribution?

Dr. GORDON. Not that I know of. Most of the State scholarship programs provide for tuition and tuition only. There are a few States which don't come up with any money of their own and say that the institution has to come up with money, but the vast majority of States have appropriated funds for State scholarship programs.

I would say that there are pressures within the States to increase State scholarship funds. So it isn't simply the impact of the Federal matching grant, but it is clear that the availability of Federal matching grants has stimulated many of the States to increase their expenditures on State scholarships, and the second reason why we strongly support increases for the SSIG program is that it is the States that set tuition in public higher education. They can gear their provisions to the actual tuition gap between public and private institutions in the State more effectively than Congress can do in trying to legislate for the very differing tuition situations in the various States.

I might also say that one of the most interesting things we found in our work on the report on the States and Private Higher Education resulted from a survey we conducted of private institutions in States

that had generous scholarship programs or programs of aid to private higher education, like New York State, for example, and also of States that had minimal scholarship programs.

We found that in the States that had sizable State scholarship programs, the percentage of students receiving aid who came from families with incomes of $18,000 or more was substantially higher than in the States with minimal scholarship programs. That is not simply because some of those States have more liberal eligibility conditions. It is clear from our data that the major reason for it is that the existence of a large State scholarship program enables the wealthier private institutions to release some of their own institutional funds to aid able students from middle-income families.

We also favor some restructuring of the supplementary educational opportunity grant program. In the past, and in the report, entitled, "The Federal Role in Postsecondary Education," which appeared in 1975, we recommended phasing out that program because its impact has been inequitable. There have been two studies by the College Entrance Examination Board, which showed that the funds in the SEOG program did not by and large go to the lowest income students, but we do think that program could be restructured, so that it would be designed to meet exceptional needs, such as death of a father in a family while relying on the basic educational opportunity grant program to meet noninstructional costs by and large, and relying on the State's student incentive grant program to contribute to tuition costs.

I also said that we were somewhat concerned about the large increase in the family size exclusion for the single, independent student. This does not mean that we do not think there are many single, independent students who are genuinely deserving of support.

The problem is that this type of pronounced liberalization would probably encourage students to declare themselves independent, even though their families are capable of contributing to their support, because if you think about the difference between $1,200 and $3,400, which is the increase in the family size exclusion involved, an independent student presumably is a part-time earner who is working his way through college, but who seeks some support. $3,400 is about the most you could expect such a student to earn. That means that almost any independent student could qualify for the maximum grant or at least the great majority of them could.

We have had a trend in recent years toward an increase in the number of students who were declaring themselves independent. The latest figures that I have from HEW indicate that more than 40 percent of the applicants for basic educational opportunity grants are independent. The percentage among those who actually get grants is considerably lower.

But it is a worrisome trend in terms of the original purposes of the basic educational opportunity grant program, which were to aid students in relation to parental income and to give the bulk of the aid to students from low income and disadvantaged families. If we encourage in this manner a large increase in the tendency for students to declare themselves independent, we get more and more away from the original purposes of the BEOG program and we run

into a real problem as to what the ultimate costs may be. I am sure the cost estimates have been carefully developed by HEW. But if you get a large increase in independent students who qualify for the maximum grant, those cost estimates could be way under what the ultimate cost would be.

When I talk about the problem of increasing family eligibility for subsidies under the guaranteed student loan program, it is very difficult for me to explain my reasons without going back a little and discussing the problems that we see with existing student loan programs.

We think that there is no aspect of Federal student aid provisions which is more in need of thoroughgoing revision than the student loan provisions, for some very important reasons.

First of all, it is difficult under the GSL program to insure equality of opportunity when banks are clearly going to be influenced by the credit standing of a student's family and may well be inclined to discriminate against disadvantaged students. In a tight money market, this may be even more true. There is a real problem of access to loans in a tight money market, despite the special allowance over and above the basic 7-percent interest rate.

There is a lack of interest in collection when the Federal Government guarantees repayment. This is, I think, one of the factors underlying the default program. There is a growing default rate. It is to some degree concentrated in certain proprietary schools which have exploited the program, but it is a problem and it is a problem for the Federal budget.

We think there is a strong case for deferral of interest under a loan program rather than interest subsidies. Interest subsidies can lend themselves to abuse if a student can get a loan essentially free of interest through college. We think it would be more desirable to defer the interest so that when the repayment period begins, the accrued interest payments that have not been paid during college becomes a part of the repayment obligation.

We think there is a problem with the 10-year repayment program under student loan programs because a college student frequently goes through a period of rather low earnings in the first few years after graduation, while later on in life his earnings reach a higher level and his repayment capacity is higher. I happen to be a person who has done a lot of work on the economics of aging. So I am concerned with the changes of income over the life cycle.

Then there is a basic inequity between the direct student loan program with its interest rate of 3 percent and the guaranteed student loan program under which a student has to pay 7 percent.

There is a big temptation, I am sure, for institutions to attract able students by giving them access to the direct student loan program.

We have proposed in the past, and it is something that I cannot discuss in great detail, because I shouldn't take that much time, but we have proposed in the past a national student loan bank, which would be a universal loan program operated by a national nonprofit private corporation which obtained its funds by borrowing through the Federal Treasury at the going Treasury borrowing rate. It would be open to all students, regardless of income, but it would

not involve subsidies. Interest would be deferred and added to the total repayment obligation.

Payments would be proportional to income, but it would not be an income redistributive system. Low-income students would simply take a longer time to pay back. Higher income students could pay back their loans in a shorter period of time. The average repayment period would be 20 years, which would make it much more feasible for the average person to repay the loan, because that person would have the advantage not only of the normal increase in income over the life cycle, but also of inflation which reduces the actual burden of his indebtedness. The collection under this proposal would be through the Internal Revenue Service; which would be the most efficient way of getting around the default problem, and the existing Sally Mae could actually be restructured into this type of loan bank.

We have been somewhat concerned that not very much attention in the past has been paid to this proposal, but I sensed this morning that there was far more interest in this type of approach and I think that the loan situation is getting to the point at which this type of approach may very well get serious consideration.

In the light of what I have said, I think it is clear why we are concerned about extending the interest subsidy type of program as high in the family income distribution as $45,000, which gets up into the top 10 percent of the income distribution. There is a case for an interest subsidy in a loan program if it is geared to low-income students, but there is not much of a case for interest subsidies for middle- and upper-income students. There may be a case for deferral, while a student is in college. So we have very strong reservations about that particular proposal.

I would just like to close by pointing out that I don't think that, in general, middle- and upper-income families are hurting from college costs as much as an apparently widespread public opinion seems to suggest. I would just cite three pieces of evidence on that. It is not that we are opposed to doing something more for the middle-class. I have made it clear that we go along with the general thrust of the Carter administration proposals, but we think that there has been some tendency to exaggerate the degree to which the middle-class is hurting.

I have appended two charts to my statement at the back, which indicate the percentage increases in tuition, tuition and board and room, and board and room compared with the percentage increases in the Consumer Price Index and in per capita disposable income from 1970–71 to 1976–77. The first chart relates to universities, public and private. The second chart relates to 4-year colleges other than universities.

Let me point out that board and room have gone up considerably less than the Consumer Price Index. Tuition by itself has gone up roughly by the same amount as the Consumer Price Index, except in public 4-year colleges and there I think, because these figures are weighted by enrollment, the departure of the City University of New York from free tuition probably played a role.

If you take tuition and board and room together, the increases have generally been less than the rise in the Consumer Price Index and considerably less than the rise in per capita disposable income.

You are probably also familiar with the recent report of the Congressional Budget Office which I cite here, and which is called, "Federal Aid to Post-Secondary Students: Tax Allowances and Alternative Subsidies."

That report shows that if tax expenditures are included—that is, exemptions through the personal tax exemptions through the exemption of scholarship and loans, through the exemption of GI benefits from taxation, and so on—if all those p taxexemtions plus student aid are included, 32.5 percent of the benefits of all Federal student aid go to students from families with adjusted gross income of $10,000 to $20,000 and 38.2 percent go to students from families with $20,000 or over in income.

Also, which there has been a downdrift in enrollment rates in higher education since 1969 for all income groups, the largest increase has been from the highest income bracket of families, those with incomes of $25,750 or more, according to the CBO report. That does not suggest that the impact of rising costs has been the major factor. We are convinced that the major factor, since most of the decrease was on the part of males, was the change in the draft situation.

There is no question that college enrollment rates were inflated in the late 1960's, because this was the way you could get deferral from the draft. They started dropping after 1969 when draft calls dropped and the draft situation changed.

I would like to close by saying that no doubt there are middle-income families that are hurting, but we think there is some tendency to exaggerate that problem and we are supportive of relaxing family income eligibility conditions; to some degree, but we also think that the students should be expected to make a contribution from earnings. I thank you.

[Testimony resumes on p. 34.]

[The prepared statement of Dr. Gordon follows:]

PREPARED STATEMENT OF DR. MARGARET S. GORDON ON BEHALF OF THE CARNEGIE COUNCIL ON POLICY STUDIES IN HIGHER EDUCATION

Mr. Chairman, it is a privilege and pleasure to accept the chairman's invitation to discuss the President's recent proposals for expansion of aid to students enrolled in higher education and the proposals for tuition tax credits that have been before Congress in recent months.

Although members of the several congressional committees particularly concerned with higher education are familiar with the Carnegie Council, and with its predecessor, the Carnegie Commission on Higher Education, I cannot make the same assumption about all members of the House Budget Committee.

The Carnegie Commission on Higher Education was appointed by the Carnegie Foundation for the Advancement of Teaching in 1967 to make studies and recommendations relating to the future of higher education in the United States. The Commission included a number of distinguished members and was headed by Clark Kerr, president emeritus of the University of California. When the Commission completed its work in 1973, the Carnegie Foundation decided to appoint a successor body, the Carnegie Council, with similar though largely different membership, and also headed by Clark Kerr.

The Carnegie Commission issued 23 policy-oriented reports relating to a variety of issues in higher education, along with numerous books and technical papers. The Carnegie Council has issued about 10 reports and a number of other publications.

A central concern of both the Carnegie Commission and the Carnegie Council has been Federal policy toward higher education. The major emphasis of both the Commission and the Council has been on need-based student aid as the primary form of Federal aid to higher education (in addition to support of research). We have argued that this type of aid should receive primary emphasis

because the Federal Government has a special responsibility to encourage equality of opportunity and that student aid, as contrasted with institutional aid, encourages student choice and does not involve the Government in interference with the autonomy of institutions of higher education.

We have had the very great satisfaction of seeing a number of our proposals relating to Federal policy toward higher education, at least in their major outlines if not in fine details, adopted. I refer especially to the basic educational opportunity grants program adopted in 1972, which was strongly influenced by Carnegie Commission recommendations, though there were also certain powerful spokesmen for such a program within the Congress.

I should add that the Carnegie Council is not a spokesman for higher education, We are concerned with issues in higher education and express opinions about those issues, but we do not speak for higher education, in the sense that the various associations representing institutions of higher education do.

In discussing the recent administration proposals, I should make it clear that the Carnegie Council has not had an opportunity to discuss those proposals, which were made public very recently. However, the proposals can be evaluated in relation to the various recommendations that have been made by the Council in recent years, and this is what I propose to do. Moreover, I have discussed my comments on the proposals with Clark Kerr, chairman of the Carnegie Council, and have his concurrence in what I intend to say.

The most recent relevant reports of the Carnegie Council are The Federal Role in Postsecondary Education (1975) and The States and Private Higher Education (1977). We are also preparing a new report which will take a broad look at progress in the development of student aid since the early 1960's and will include recommendations aimed both at greater equity and greater simplicity in what has come to be a complex and poorly articulated set of provisions.

Let me emphasize at the outset that the administration proposals, in their main thrust, are consistent with the Council's policy positions on student aid and have our support. This is particularly the case since they come at a time when tuition tax credit proposals have been receiving serious consideration in the Congress. We are opposed to the adoption of tuition tax credits without careful consideration of their relationship to the entire existing array of student aid provisions and in advance of the careful review of student aid which we believe should be undertaken by Congress before the present legislation expires in 1979.

We also believe that tuition tax credits tend to be inconsistent with the basic principles and philosophy that should underlie student aid policies, as Clark Kerr made clear recently in a letter to Senator Russell Long, Chairman of the Senate Finance Committee, copies of which were sent to members of the relevant congressional committees:

"1. Tuition tax credits benefit parents of college students without regard to need, and, depending on their precise provisions, tend to be regressive, aiding middle- and upper-income families more than those with low incomes. In fact, it has been estimated that under the Roth bill (S. 311) which calls for deduction of student grant aid from any tax credit, 70 percent of the benefits would probably go to families with $18,000 or more in income.

"2. Largely because tuition tax credits are indiscriminate with respect to need, they are exceedingly costly to the U.S. Treasury in relation to the amount of tuition relief provided to any individual family, compared with student aid measures that are targeted to the needy.

"3. Because the amount of relief provided is modest, especially in relation to the tuition burden of parents with children attending private colleges and universities, there is a very great danger that, once the legislative door is open to this type of aid, Congress will be subject to pressure to increase the amounts of relief provided in the future, with very greatly increased costs to the Treasuy.

"4. Moreover, it seems highly likely that many institutions will raise their tuition by the amount of any tax credit provided, thereby ensuring that the Federal benefits will flow either to State governments in the case of most public institutions or to private institutions, rather than to the parents of students. The danger that this will occur is far greater than in the case of need-based student aid, because institutions are inhibited from raising their tuition as a response to the availability of student need-based grants, for fear of discouraging enrollment by students who do not benefit from the aid. In the case of tuition tax credits, however, the benefits flow in the first instance to the very families that must pay full tuition, and thus the incentive for the institution to raise tuition by the amount of the tax credit is very strong.

"5. It is, of course, the parents whose children attend private institutions that are most heavily burdened by tuition costs, and yet tuition tax credits are an

exceedingly inefficient way of aiding private institutions, because a very large proportion of the benefits will flow in the first instance to the far more numerous families whose children attend public institutions."

On the issue of tuition tax credits at the elementary and secondary level, which are provided in the Packwood-Moynihan bill (S. 2142), our Council, of course, has no position, because its terms of reference relate to higher education.

Now let us consider more closely the President's recent proposals.

BASIC EDUCATIONAL OPPORTUNITY GRANTS

The Carnegie Council welcomes the liberalization of family income eligibility conditions and the increase in the maximum grant that are provided for in the administration proposals. In the Federal Role in Postsecondary Education, the Council recommended that eligibility conditions should gradually be liberalized but only as appropriations increase sufficiently to permit such liberalization without penalizing students in the family income range in which students are currently eligible. Appropriations have increased in a most satisfactory manner—from $660 million in 1974–75 (when our report was being prepared) to $2.1 billion in the fiscal 1978 budget, to which the President's proposals would now add $1 billion for fiscal 1979. In our judgment, based on cost estimates that we have made in the past, family income eligibility conditions can now be relaxed somewhat without impairing the adequacy of aid available for students from low-income families.

We have serious reservations, however, about the proposal for a uniform grant of $250 to students from families in the $16,000 to $25,000 income bracket, for the following reasons:

1. This provision departs from the principle of family contributions proportional to income. The departure may seem rather modest, but it poses a danger for the future very similar to that posed by tuition tax credits. Especially in relation to costs of attendance at a private institution, $250 is a very modest contribution. There would almost certainly be strong pressure in the future to increase the amount of this uniform grant and to raise the upper limit of family income to which it applied.

2. In the light of the principles expressed by the Carnegie Council in the past, we question the desirability of extending grant aid (as opposed to work-study or loan aid) to families as high in the income distribution as those affected by this provision. In 1975, the latest year for which relevant data have been published, 87 percent of families with children aged 18 to 24 had incomes under $25,000. Median income of such families in that year was about $13,000. In the past, we have suggested that "a student from a family in the lowest income quartile should ordinarily receive the maximum grant, that about one-half of the maximum grant should be the average amount received by a student in the second lowest quartile, and that some grants would be made under unusual family circumstances to students from families in the lower part of the upper half of the income range" (The Federal Role . . ., p. 24). In view of the large increase in student aid available to students from low-income families since we made that statement, we would now be inclined to suggest that some grant aid be made available to students from families in the lower two-thirds of the income distribution, but this would certainly not extend to families with incomes of $25,000 (unless there were special circumstances, such as more than two dependent children). Family incomes have risen since 1975, but an income of $25,000 would continue to be in the top fourth of income of families with college-age children.

3. There would be a strong inducement for institutions to raise tuition by $250 if this provision were adopted—the situation would be very similar to that resulting from a tuition tax credit of the same amount.

We believe that there are more desirable and equitable ways than the $250 flat grant of extending grant aid to families with incomes somewhat above the median. Senator Pell has proposed one approach—reducing the percentage of the maximum grant that would have to be contributed by the family.

Another approach that we have urged is a very substantial increase in Federal appropriations for the State student incentive grant (SSIG) program. This approach has the advantage of stretching the impact of Federal student aid dollars by providing an incentive for States to increase their student aid appropriations. In the years from 1972–73 to 1976–77, Federal appropriations for the SSIG program increased from zero to $44.0 million. During those same years, State appropriations for need-based undergraduate scholarships rose from $315.5 million to $601.4 million (not including the Federal contribution). Thus, the increase in State appropriations was nearly seven times the rise in Federal appro-

priations. Probably not all of the increase in State funds can be attributed to Federal matching grants, since thre have been strong political pressures toward increases in State scholarship funds in many States even without the Federal incentive, but there is no question that the SSIG program has had a decided impact—and this despite the fact that some of the large States—especially California, Illinois, New York, and Pennsylvania—already had sizable State scholarship programs in effect at the time the Federal SSIG program was adopted.

We have linked our proposal for substantially expanded SSIG appropriations to a recommendation that the Federal BEOG program be structured to meet students' needs for noninstructional costs and that the chief means of meeting needs for instructional costs would be through State student aid programs. There are two main reasons for this suggestion: (1) noninstructional costs are more uniform from State to State than tuition costs and thus lend themselves more readily to national standards of student aid; and (2) tuition levels in public higher education are determined at the State level, and thus State scholarship programs can be more readily adapted to differing tuition levels between public and private institutions than can a national program.

One of the most interesting results of a survey we conducted in connection with our work on *The State and Private Higher Education* was that, among students in private institutions of higher education receiving some form of student aid, the percentage from families with incomes of $18,000 and over tended to be significantly higher in States with substantial State scholarship programs (or other forms of aid to private higher education) than in States with minimal State scholarship programs. Quite evidently, this result was attributable, not so much to a tendency for State scholarship programs to provide aid to students with families in this upper income group, but rather to the fact that sizable State scholarship programs made it possible for private institutions to reserve some of their own institutional student aid funds to assist promising students from families that would not qualify for public student aid.

Although we favor changes in the Federal SSIG provisions—especially changes designed to minimize inequities from State to State and to increase the inducement for States to provide for portability of student grants—the point to be stressed in the present context is that State scholarship programs are playing a significant role—probably primarily through their indirect effects—in providing some student aid to upper-middle-income students.

We believe, also, that the supplementary educational opportunity grants (SEOG) program can play a significant role in this respect. Although our previous reports have recommended a partial phasing out of the SEOG program, on the ground that it has been found to operate in an inequitable manner, we are currently considering recommendations designed to transform it into a program which would enable student aid officers to structure packages of student aid that would meet the needs of students in unusual circumstances, and this might well include some students from middle-income families.

Before leaving the BEOG proposals, I should add that we have serious reservations about the wisdom of increasing the family size offset for a single independent student with an income of $4,200 or less from $1,200 to $3,400. This would have the effect of making a very large proportion of independent students eligible for grants, since a student who depends on part-time earnings is unlikely to have an income much above $3,400. Granted that there are independent students, especially in age brackets above the usual age of college attendance, who are genuinely cut off from any prospect of support from their parents and who are in need of this type of liberalization of the family size offset, we have to face the fact that the proportion of students declaring themselves independent has tended to increase significantly and now accounts for more than 40 percent of BEOG applicants. Would not this large increase in the family size offset for single independent students greatly enhance the incentive for students to declare themselves independent, even though they might have to wait a year before satisfying the requirements for establishing independent status (such as not having lived at their parents' home more than a minimal length of time, not having been declared a dependent on the parents' income tax return, etc.)? And, if the trend toward an increase in the proportion of independent students did turn out to accelerate, would not the cost of the proposed liberalization of BEOG provisions turn out to exceed the administration's estimate of $1 billion by a substantial amount? We believe that this is a possibility that should be seriously considered.

The College Work Study Proposals

We are heartily in accord with the President's proposal to increase the appropriation for the college work-study program and to liberalize the family income

eligibility conditions in such a way as to allocate two-thirds of the increase of $165 million in expenditures to students from families with incomes above $16,000. In The Federal Role . . . (p. 42) we recommended a gradual increase in the appropriations for the program from the $300 million made available in 1974–75 to approximately $700 million (in constant 1974 dollars) by 1979–80. The total sum of $600 million that would be allocated under the President's proposals in 1978–79 would represent very substantial progress in the direction we suggest (even though $600 million in 1978 dollars are equivalent to only about $470 million in 1974 dollars).

We also recommended that family income eligibility conditions should gradually be eliminated in this program, but "only as appropriations increase sufficiently to permit such liberalization without penalizing students in the family income range now eligible for college work study jobs." We believe that that condition has now been met, at least if one considers the increased availability of all types of student aid for low-income students.

The Guaranteed Student Loan Proposals

The Guaranteed Student Loan Proposals raise more difficult issues, especially when scrutinized in relation to the critical views we have expressed about the status of Federal student loan programs in the past.

Briefly, we believe that "there is no aspect of student assistance that is in greater need of major legislative restructuring than the provisions relating to student loans" (The Federal Role . . ., p. 43). Granted that such restructuring is a problem for the 1979 education amendments and would not be appropriate in a set of proposals designed for temporary application in 1978–79, I find it difficult to comment on the President's loan proposals without some reference to our criticisms of existing student loan provisions.

In criticizing these provisions, we have emphasized: (1) a basic problem of inequality of opportunity in a program in which private lenders are likely to be influenced by the credit standing of the student's family, (2) the difficulty of ensuring student access to loans in a tight money market, even when bankers receive a "special allowance" when the prevailing interest rate goes above 7 percent (the rate subject to subsidy), (3) the lack of incentives for banks and other lenders to pursue adequate collection procedures when loans are guaranteed by the Federal Government, (4) the growing default rate, even though one should be careful not to exaggerate the pervasiveness of defaults and to recognize that certain proprietary schools have been major culprits, (5) a basic question as to whether interest subsidies, as opposed to deferral of interest during periods of enrollment, are appropriate, (6) the disadvantages of a 10-year repayment period for many college graduates, who tend to have relatively low incomes in the first few years after college compared with the higher incomes they reach after 10 to 15 years in the labor force, and (7) the inequities associated with the retention of an anachronistic interest rate of 3 percent in the direct student loan program compared with 7 percent in the GSL program.

We have consistently recommended the establishment of a National Student Loan Bank (NSLB) as a replacement for existing student loan programs. I have been somewhat puzzled by the fact that Congress has apparently ignored this recommendation, but I am told by some of my Washington friends who follow congressional matters closely that this may be because there is a tendency to assume that our NSLB is modeled after the Economic Opportunity Bank (EOB) proposals originally put forward by Zacharias and others. The fact is that our NSLB proposal is quite different from EOB proposals in that repayment obligations are not proportional to income under our proposal, and therefore our proposal does not involve redistribution of income. Furthermore, our proposal does not at all imply full-cost tuition in public higher education, as EOB proposals tend to do.

Under our proposal, repayments would be proportional to income in any given year, but the total repayment obligation for every borrower would equal the amount of his borrowings plus interest. Those with relatively high incomes would be able to repay their loans in a comparatively short period of time, whereas borrowers with lower incomes would take longer. The average repayment period would be about 20 years.

The National Student Loan Bank would be a nonprofit private corporation chartered by the Federal Government and financed by the sale of governmentally guaranteed securities. The interest rate charged the student would be set at a level that was adequate to permit the Bank to obtain the funds and to cover the cost of cancellation in the event of death or severe permanent disability of the borrower. Interest payments would be deferred until after graduation (or comple-

tion of graduate study, military service, etc.) but would not be subsidized, and there would be no needs test.

There is a case for an interest subsidy in a loan program that is designed to aid low-income students, but we do not believe that there is a case for an interest subsidy in a loan program that is geared primarily to the needs of middle- and upper-income students and to graduate and professional students. The more adequate the availability of grant and work study aid for low-income students, the less they are likely to have to borrow and the more a Government loan program is likely to be relied on chiefly by students from middle- and upper-income families whose parents find it difficult to provide fully for college expenses. The current administration proposals, taken as a total package, have the effect of reducing the need for loans by students in low- to lower-middle-income groups, but also of extending the availability of subsidized loans to students practically regardless of family income. I say practically regardless of family income, because the interest subsidies would be extended to students from families with incomes up to $45,000 (compared with the present ceiling of $30,000). In 1975, only 6 to 7 percent of families with heads aged 45 to 54 (the age range which would tend to include most parents of college students) had incomes above $45,000.

Thus, we question whether the privilege of receiving subsidized loans should be extended to students from families as high in the income range as "up to $45,000," even though we recognize that, in practice, banks are reluctant to make loans to students who are not eligible for the subsidy, because the administrative cost of collection of interest from such students is high.

There is the additional consideration that, especially in a tight money market, banks that could make subsidized loans to students from upper-income families would tend to favor such students as borrowers over students from low-income and disadvantaged families. This type of inequity is inherent in the program, in any event, as we have already suggested, but it could well be exacerbated by bringing upper income students into the program on a subsidized basis. The danger might be offset, however, depending on developments in the money market, by the attractiveness of the added 0.5 percent to the special allowance that we understand is part of the President's proposal.

CONCLUSION

In conclusion, let me recapitulate by urging the approval of liberalizations of the BEOG and college work study programs along the general lines of the President's proposals. I would urge both Congress and the administration, however, to look with careful scrutiny and skepticism—and with a view to alternative possibilities—at (1) the flat $250 BEOG grant, (2) the large increase in the family size offset for the single independent student, and (3) the extension of subsidized loans under the GSL program to families with incomes up to $45,000. The scrutiny is highly likely in any event, because both the flat $250 grant and the GSL subsidy provisions would require changes in existing legislation.

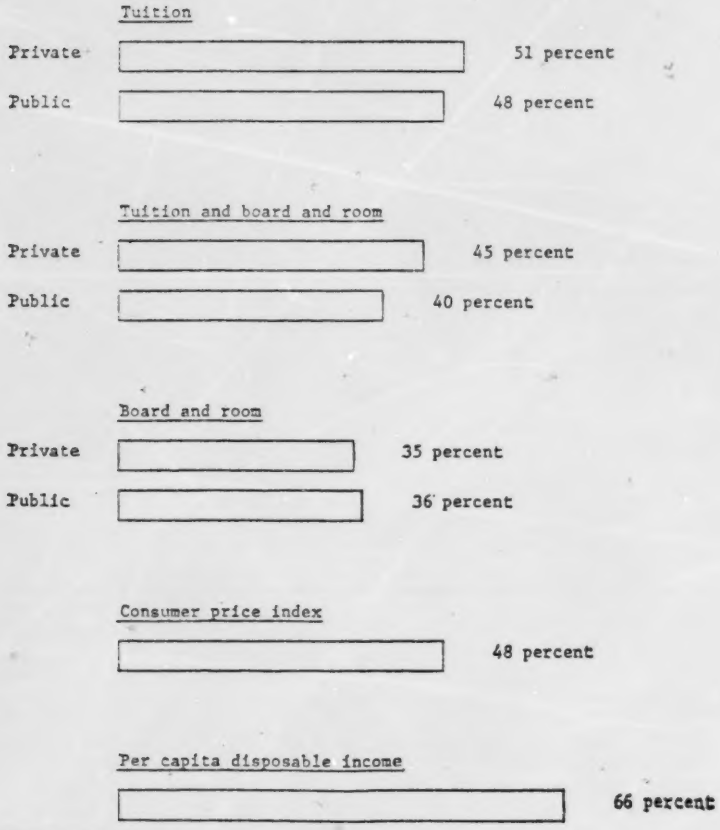
Let me add that, although we favor liberalization of the family income eligibility conditions for BEOGs and college work study aid, as well as other changes designed to extend student grant aid to students from families with incomes somewhat above the median family income, we are not inclined to accept what appears to be a widespread view that the middle class is in the throes of a crisis in relation to college costs. To indicate some of our reasons for skepticism about this popular impression, I am appending two charts which show changes in college costs in universities and other four-year colleges, public and private, from 1970–71 to 1976–77, in relation to changes in the Consumer Price Index and per capita disposable income. The charts show that the cost of board and room has gone up considerably less than the Consumer Price Index and much less than per capita disposable income. Tuition has increased at about the same rate as the Consumer Price Index, except in public 4-year colleges, where its rate of increase has been relatively high (this may in part reflect the abandonment of free tuition at the City University of New York). The critical test, of course, is what has happened to tuition and board and room combined. The increases in this combined measure have been somewhat less than those in the consumer price index, except in public 4-year colleges, and considerably less than per capita disposable income in all four types of institutions represented.

Moreover, a recent report of the Congressional Budget Office, with which members of this committee are probably familiar, shows that, if tax expenditures are taken into account, 32.5 percent of the total (dollar) benefits of student aid flows to students with adjusted gross family income of $10,000 to $20,000 and no less that 38.2 percent goes to those from families with incomes of $20,000 or

more.[1] The same report (p. 9) shows enrollment rates in higher education declined somewhat after 1969 for all income groups, but considerably more sharply for students from families with incomes of $25,575 or more—who could best afford increased college costs—than from middle- or lower-income families. On the basis of our own analyses of enrollment trends, we believe that the decline in enrollment rates after 1969, which showed up among males primarily, was largely attributable to the change in the draft situation, and perhaps to some extent to the less favorable job market for college graduates, rather than to increased costs.

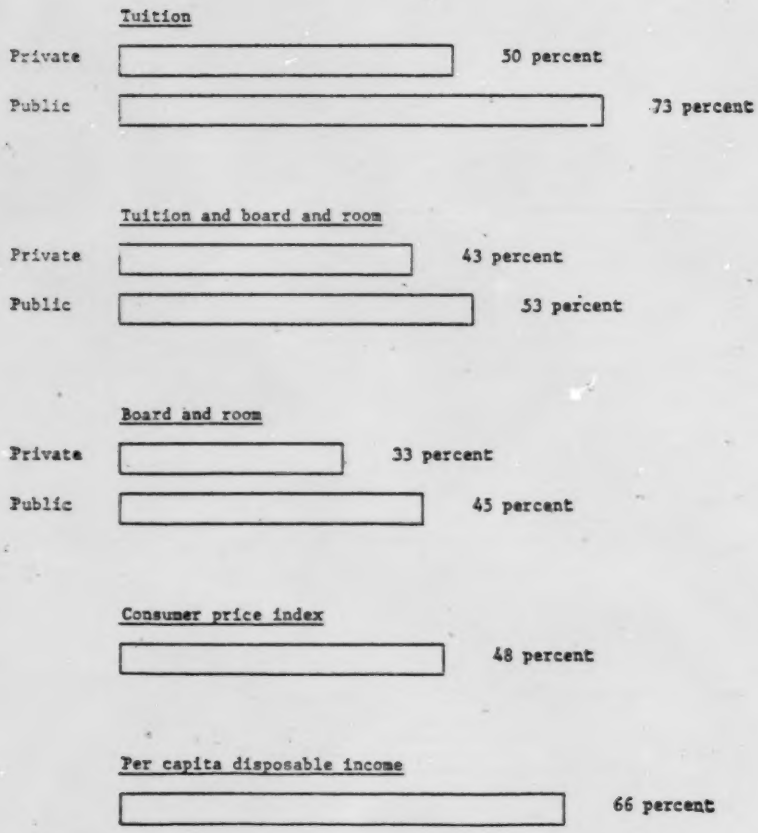
All of this does not mean, of course, that some middle-income families—perhaps because of special circumstances—are not hurting, but if fails to support an allegation of students from middle-income families being priced out of higher education on an intolerable scale.

Chart 1 Comparative increases of tuition, tuition and board and room, board and room, consumer price index and per capita disposable personal income, 1970-71 to 1976-77, for universities



[1] Congressional Budget Office. *Federal Aid to Postsecondary Students: Tax Allowances and Alternative Subsidies.* Washington, D.C., 1976, p. 6.

Chart 2 Comparative increases of tuition, tuition and board and room, board and room, consumer price index and per capita disposable personal income, 1970-71 to 1976-77, for four-year colleges other than universities



Mr. MITCHELL. Thank you, Dr. Gordon. I must confess that I am a great admirer of professionalism and your testimony was one of the most professional pieces of testimony I have ever heard in my life. I am just grateful for your sense of the problem.

Dr. GORDON. Thank you.

Mr. MITCHELL. We have a number of questions that I want to put to you. I will ask you now whether or not you will respond in writing if we submit the questions to you?

Dr. GORDON. I will.

Mr. MITCHELL. I would like to put one or two of them to you. I am just intrigued by the National Student Loan Bank. Moreover, I am

convinced that we need to make some changes in our system of Government and one of the changes is going to be in terms of redefining citizens.

I am convinced that we have got to move to the point where a right to an education becomes a right. Of course, education is an integral part of the American system. The National Student Loan approach is essential to preserving the right to an education, because it enhances that right and yet does not create another awesome burden in the Government. It is fascinating. I must study it further.

Dr. GORDON. There has been some criticism of reliance on student loans. We regard student grants and college work study as the basic approaches to aiding low-income students. We think, however, that some students from middle and upper income families may be in situations in which they are going to have to borrow and certainly graduate and professional students, medical students, for example, and there ought to be available for those people who need to borrow a genuinely equitable loan program, but not one which is subsidized.

Mr. MITCHELL. I hope the establishment of the kind of program you suggest will take place. Seemingly, you are saying that a 10-year repayment period under the student loan program ought to be extended to approximately 20 years.

Dr. GORDON. We really haven't specifically recommended that. We have recommended our National Student Loan Bank proposal and that part of that proposal—you see, the problem I think, Congressman Mitchell, is when you are dealing with banks and they are of course the main lenders under the guaranteed student loan program, I think they would object. I am guessing, but I think they would object to extension of the repayment period.

Mr. MITCHELL. I am convinced that they would, and I understand. The reason I said the 20-year period is because you mentioned that with reference to the National Student Loan Bank.

Dr. GORDON. Yes.

Mr. MITCHELL. Many of the Members of the Budget Committee, and Members of the House are up in arms over the default rate. Obviously, if there are scandals, I think they should be dealt with, but I think much of the alarm over this situation is based upon faulty assumptions.

I think much of the alarm assumes that the students have deliberately cheated the Government. Yet, if you look back over the last 4 or 5 years, when the economy has not been good, it is obvious that many of the recipients of these loans have been unable to obtain employment after completing college. In fact, the estimates of unemployment among college graduates are as high as 8 percent. It is also obvious that even if they got a job, they were hit by a sudden increase in inflation, which diminished their ability to repay.

Consequently, while I think we ought to examine the default rate, I don't think we should have the same alarm as some of the members of the Budget Committee do with reference to that problem.

Dr. GORDON. I think it is just one of the number of reasons for being unhappy about the present loan situation with two different Federal loan programs standing side by side with very different provisions, very different impact.

[Replies to questions by Dr. Gordon follow:]

REPLIES TO QUESTIONS BY DR. MARGARET S. GORDON

Question. The President's proposed changes for basic grants would virtually leave the poorest students—those from families with incomes under $5,300—in the same position as under his January proposal. Yet in the new proposal, benefits increase substantially for students from families with incomes from $16,000 to $25,000. Under the January proposal these latter students would have comprised 11.6 percent of all those helped. However, under the new proposal they would compromise 46 percent of all those helped. An additional 2.2 million students from families with incomes from $16,000 to $25,000 would be included. Are these proposed changes defensible?

Answer. My testimony indicated that I thought the President's proposed changes extended to families that were too high in the income distribution and that I especially opposed the proposal for a flat grant of $250 to students from families with incomes of $16,000 to $25,000.

Question. Independent students' participation in higher education is growing rapidly. Such students are increasing as a proportion of total college students enrolled. Under the President's proposal for basic grants, these students' current poverty index of $1,050 is increased to $3,400 to offset a portion of their contribution toward their education costs.

Is this a reasonable change in the poverty index for this category of students? How would this change impact on such students' ability to attend college?

Answer. As I testified, I believe that this increase is too large to be authorized at one jump. A much smaller increase might be justified. There are good reasons for believing that this large an increase would substantially increase the incentive for students to meet the requirements for independent status.

Question. One argument against college tuition tax credits is that it would induce tuition increases since many institutions now face severe funding shortages in such areas as faculty pay and capital expenditures.

Do you have any evidence to support or reject this concern?

Those who believe this argument are concerned about the impact of increased tuition charges on low-income students, especially those who would not receive any tax credits at all.

In view of this concern, what would be necessary to protect the very poor if tuition increases were induced by tuition tax credits?

Answer. As I testified, I believe that tuition tax credits might well induce tuition credits, especially as they would apply to all students equally, at least if there were tax refunds to families that would not normally be subject to a tax as high as the tax credit. To protect the poor, it would be necessary to increase the maximum amount under the BEOG program. However, I am opposed to tuition tax credits for a large number of reasons, as I testified, and not merely because they might induce a tuition increase.

Question. Under an $1,800 maximum grant level, the President's proposal would give up to $200 more per year to the poorest students and a minimum $250 per year to students whose families have incomes up to $25,000. The Roth proposal would give nothing more to the poorest students—those whose parents pay no taxes—and would provide $250 to all nonpoor families, including the very rich.

Now a central element of Federal policy is to provide more equality to higher education.

Isn't the President's proposal more consistent with this goal than the Roth proposal?

Answer. Yes.

Question. Two Federal goals for postsecondary education are access to higher education and choice of institutions in one's schooling. Currently the lowest income students attend the lowest priced institutions—those which are generally of less value such as proprietary and vocational schools, or 2-year public colleges. And the higher priced institutions disproportionately enroll students from higher income families.

Which of the two approaches which we are discussing this afternoon would best assist us in achieving these two Federal goals of access and choice?

Answer. The President's proposals are superior, though subject to the specific objections that I mentioned in my testimony.

Question. One common argument used earlier to support the need for a tuition tax credit was that rises in middle-class incomes have not kept pace with rises in tuition charges. However, a study by CBO using survey of current business data, shows that middle-class family incomes have risen by 88.6 percent over the years 1967 to 1976, while tuition charges rose by 75 percent during this same time.

In view of this data, does the argument of need of the middle-income still hold?

Answer. I also cited similar data in my testimony.

Question. The administration's proposal of $1.2 billion would add $990 million for basic educational opportunity grants, $150 million to the college work study program and $70 million to the guaranteed student loans program.

Would you comment on the administration's wisdom of choosing these particular programs for increases, and would you also comment on the distribution of this $1.2 billion?

Answer. I approve without qualification the addition for the college work study program. I approve the increase in the BEOG program, subject to the qualifications in my testimony. I do not think that the increase in GSL is advisable.

Question. Federal provisions for higher education programs such as special services to the disadvantaged, national direct loans and college work study assist large numbers of low-income students. The proposed Middle-Income Assistance Act would provide grants and loans to large numbers of middle-income students, as well as continue benefits to low-income students.

If this proposal were to be enacted, would Federal benefits to all students—low- and middle-income—be relatively balanced, based on students' ability to pay college costs and on their representation in the population?

Answer. No.

Question. A tuition tax credit is generally regressive. Those who need it least would receive the greatest level of benefit. Could you comment on this feature of tax credits?

Answer. My testimony indicates clearly that I consider a tuition tax credit regressive.

Question. The President's proposal for basic grants raises the Orshansky poverty indices now used by $650 for each family size category.

What is your judgment on this size increment?

What about allowing differential increments by family size? Is such a concept defensible?

Answer. I approve of the increase for each family size category. Differential increments by family size should be studied carefully before being seriously considered.

Question. Some opponents of tuition tax credits argue that a tax credit merely allows a family to pay less in income taxes. They oppose this measure on the basis that this is too indirect a way to really assist students going to college in that there is no assurance that a family, paying say $300, less in taxes for example, contribute an additional $300 to its child in college. Do you think there is any truth to this argument?

These same people also argue that tuition tax credit will not induce as many students to attend college as a more direct subsidy, because the tax credit cannot be received until after tax returns are filed—up to 6 months after a student enrolls in school. Do you think there is any substance to this argument?

Answer. Because I am opposed to tuition tax credits on a number of different grounds, I cannot consider this question very seriously.

Mr. MITCHELL. Our next witness is James W. Green, speaking for the National Education Association on title I and impact aid.

Welcome. It is good to see you again. As I look over the witnesses seated, I see some faces of the people who have been in the Budget Committee time and time again urging us to act in a responsible fashion in terms of funding for education.

Thank you very much for being here and taking time to be with us. I would assume you will want to submit your testimony for the record.

Mr. GREEN. Yes, sir.

Mr. MITCHELL. Without objection it is submitted in its entirety for the record.

STATEMENT OF JAMES W. GREEN, ASSISTANT DIRECTOR OF GOVERNMENT RELATIONS FOR LEGISLATION, NATIONAL EDUCATION ASSOCIATION, ACCOMPANIED BY RICHARD M. CARRIGAN, LEGISLATIVE CONSULTANT; AND RICHARD SMITH, LEGAL COUNSEL

Mr. GREEN. I have two members of my crew with me who won't be speaking but I want to introduce them. I think you know both: Richard M. Carrigan and Richard Smith. Mr. Smith is doing some work for us as legal counsel on some bill writing.

Mr. MITCHELL. Welcome to both of you gentlemen.

Mr. GREEN. I am not going to go into detail in the statement since it will be in the record but I want to talk to you about the two programs and some of the problems and proposed changes that we think can give us some help in the future.

It has been a pleasure to work with you over these years and you mentioned earlier some amendments that you had offered. We were right in there with you and are very pleased to support you in that effort. We feel that we have no better friend in the Congress than the chairman when it comes to public education.

Mr. MITCHELL. Thank you.

Mr. GREEN. We are talking about the title I program. To give you a little bit of the background, we held a series of hearings that required about 18 months and went from coast to coast to get input from classroom teachers who were involved in the title I program at the classroom level.

We wanted to get from them what their thoughts were concerning the programs of public education. Of course, title I and impact aid account for almost 60 percent of all the funds that are available from the Federal level for elementary and secondary education. So they are real important.

But the programs are quite different. Title I, for example, is a program that does not deliver money for a district's needs generally, but for a program specifically. The program, of course, has had problems, because we have never been able to fully fund it so that it could include all of the youngsters that were eligible for the service.

Currently for the fiscal year coming up, we estimate that approximately 6¼ million of these youngsters out of a total that could exceed 11 million, will be eligible for service. So we are saying purely and simply that this program must change.

Mr. MITCHELL. About 65 percent?

Mr. GREEN. Roughly 60 percent of the total that will be served under the program, if it is funded at the proposed levels. One of the big problems that we have seen with the title I program, of course, has been money and its inability to take care of all of the youngsters that were eligible. We are proposing to change title I programing, to change it so that in a district—so that targeting per se was eliminated, so that all of the youngsters from low-income families could be served at the local district level. We would simply do this by asking that any district first file a plan, which would involve an assessment, with the involvement of parents and youngsters of the educational needs of all the children from the low-income families in the school district. This would be the first step.

The second would be to develop and implement a plan, one plan, school districtwide, for providing education for all schoolchildren in the district that will insure the educational needs of all children from low-income families are met and this would be whether they are gifted and talented, whether they are average or slow learners. They have different parts of the program that they will have needs for. These should be covered and included in it.

An additional advantage would be that we could for the first time take into consideration the resources from the Federal Government for title I, from the State government and from the local government, and put them together as one program for the district utilizing total resources and permitting them to qualify for that after they had filed a plan. Of course, we would go through the regular procedures with the Commissioner being required to develop regulations which would be a process for determining whether or not the adequacy of the program met the needs that were set up for it; also for defining complaint procedure and these regulations so that momma and poppa and the teacher for that matter would have access into the program to initiate change if in their opinion the youngster was not receiving the quality of program that they felt was called for in the plan.

This is a new feature of our program which we feel has not been there in the past. One of the problems has been the fact that we have had student advisory councils set up and parental advisory councils for title I programs. We have had them set up on a targeted school basis and systemwide.

We are proposing, of course, to do away with targeting because currently we have maybe three schools in a school system that qualified because of the concentration of youngsters in those schools for title I programs. In most instances, less or slightly more in some cases than half of the youngsters eligible for the program are served in the program because they are concentrated together in large enough groups to be considered target areas. Otherwise, the balance are completely left out of the program.

We are saying develop a program systemwide, utilize the total resources from local, State, and national to put the program on, and if the program fails to meet the requirements of an independent youngster, mother, or teacher, you can call the school's attention on this and sit down and hold a hearing to find out why and, if necessary, stop the program until something is done to remedy it.

This is a rather drastic step, but we feel that what must be done in order to improve the quality of education in this country is to see first that all of our low-income youngsters, regardless of their ability to learn, whether they are gifted and talented or slow learners, should be served. This is one of the basic reasons for this program.

This brings us to this point that I will remind you we have not seen Mr. Califano's and the administration's plan for the change of the title I program. We do hear tell that it does have in it a concentration factor for particular ubran centers. We are hesitant to endorse something that we have have not seen. We know that the urban centers have problems, financially, but we also know that they have educational program problems and we are more interested in seeing that these are taken care of than the financial program.

We will get into the impact aid area and I will come back to this subject and explain why. We feel that it is most important that we most efficiently and economically take the dollars, put them into a program and improve it, expand it so that all youngsters that are eligible get involved in it because of the comparability requirements.

The antisupplanting regulations set up in current law in title I, there are so many administrative burdens with paperwork, regulations that it is just absolutely a tremendous burden to any district involved. Some of them hesitate to get into the programs because of that.

Because of these comparability requirements, there is a tendency to try to zero in on grades one, two, and three and say this is where we will attempt to put in our program for title I and the needs don't end or begin with one, two, or three grades. Some of these that are behind in programs, they need help at the junior high and senior high level and this should be provided for them. I think it is going to help the overall quality of the student and the educational product when we approach it on this basis.

The other program, the impact-aid program, we have a different situation. The impact-aid program is basically a program designed to deliver dollars, to school districts, so that the school district may use those dollars in whatever way they determine to meet their needs. Of course, they qualify for these dollars based on the fact that there is Federal property located within the school district that is not on the tax rolls and does not produce income as other property does for the support of the public schools in the area.

They use the student whose parent is working on a Federal reservation, military reservation, or for the Federal Government in an area as a vehicle on which to count in order to say this x number of dollars comes into a district because of the category of A or B or as another category, public housing, which is the C part of this thing, the third category.

We feel that this program of impact aid must be continued. It is one of the best programs, if not the best program, for delivering dollars from the Federal Government for the maintenance and operation of a local public school system. And it should be used for that purpose as opposed to the title I program. One is a program of education for the low-income student as opposed to a deliverer of dollars for a school system.

Impact aid, on the other hand, is total dollars for total programs to be used at the discretion of the local board of education, and their arrangements for handling the dollars administratively within the district.

So there are two separate programs, but both serve a real needed function. We are hoping that in the future we can convince the Federal Government to become involved in education, to a larger extent financially, because the need has never been greater.

If you will notice what has happened to the cost of public education, particularly since the year 1973, the energy costs have in some instances almost doubled the cost of public education in some locales. If you will notice what had happened, we were working with Mr. Pell, Senator Pell, on the energy problem. We found that in the city of Memphis, Tenn., which is a Southern city for all practical purposes, from 1973 until 1976, almost doubled their energy costs.

This is not the cold country of Michigan, but of course they do have a problem. Michigan generally doesn't have it and we oftentimes ignore it. That is air-conditioning. This is also a large consumer of energy and they require that to quite an extent. But the school costs, I think the figures they gave me were something like $1.4 million for energy in 1973, and something approaching $4 million in 1976, almost just 3 years later, slightly more than 2 years later.

The same kinds of costs are dramatic across the country. When it comes to low-rent public housing, I would like to point out that the payments based on low-rent public housing under impact aid would have an immense effect on the urban school districts. I think it is possible that low-rent public housing payments would concentrate more funds in the urban areas than the concentration factor that would be proposed for the title I program. I think that it could be used systemwide, and in the final analysis, it would help bolster the needs of the title I program and the local contribution rate to support of that program.

Our details are enumerated to some length within the document given you. We have also filed with the full Budget Committee a copy of our proposal on the education function for the first budget resolution. I would call this to your attention and to the staff that you have been working with in the office they are just tremendous. They are seeing that the distribution of these copies are made to all Members, and I think this will help in explaining where we are coming from and what we are proposing by way of changes.

Mr. Chairman, we stand available to help you at any time and members of the staff in any way that we can on any other proposals and any other problems that you foresee, and will attempt to answer any questions you might have.

[The prepared statement of Mr. Green follows:]

PREPARED STATEMENT OF JAMES W. GREEN

The National Education Association appreciates the invitation to appear before the Human Resources Task Force of the House Budget Committee to discuss the title I and impact aid programs. These two programs account for more than 60 percent of the total funds for elementary and secondary education from the Federal Government. Thus the total dollar volume and program objectives are critical to the Federal role in education. We ask that the task force give consideration to our recommendations as you establish the task force recommendations for the education function.

ADMINISTRATION'S PROPOSED TITLE I URBAN/RURAL INITIATIVE

We have not seen the administration's proposal to change the title I program. Various news stories have indicated that an effort will be made to put additional funds in the program with emphasis placed upon the urban school district. NEA recognizes the need of the urban school district for additional funds and supports changes in the title I program which will improve the urban and rural situation.

We would, however, like to indicate concern and ask caution respecting any change in the title I formula for urban schools. There is good reason to believe that the proposed changes in the title I formula in order to accommodate the urban concentration factor are based on less than hard data and, in some instances, on mere estimates. Some have indicated the urban concentration factor is designed to exclude nonurban districts from increased funding rather than to meet the needs of children from low-income families. Any such proposal should, therefore, be examined by comparing the effect of a concentration factor with that of

adding funds to title I under other formulae in order to determine who is being left out by the new formula.

This is especially important if the Congress adopts a policy of serving the needs of all children from low-income families wherever they attend school, as we have proposed. A concentration factor designed to exclude children from title I services is inconsistent with that policy.

Since we cannot react to the administration's proposal we will take this opportunity to present the problems of title I as we see them and offer our proposed solutions.

NEA'S GOALS AND OBJECTIVES

During the past 2 years, two committees of NEA have conducted an extensive study on the Federal role in education. Hearings were held at many locations throughout the country in which practicing professionals were asked to present their views on how existing programs are being operated and to make suggestions for change. Testimony at the NEA's hearings was repetitive enough to influence the proposals being submitted to the committee on the Budget. Among other concerns, the testimony disclosed that: State and local revenues are falling short of meeting the financial needs of education; court decisions regarding equality of educational opportunity will require additional expenditure of funds to take care of the problems such as the handicapped and the economically disadvantaged; schools are prime victims of inflation; Federal assistance to encourage the States to equalize revenues among school districts should be expanded and include incentives to move away from the property tax as the principal source of education revenues; budgetary authority and appropriations for authorized programs need to be at a level high enough to carry out the programs in the manner in which they were designed; whenever possible, Federal funds should be made available directly to local school districts with State legislatures deciding the degree to which there should be State agency participation—the result being less administrative cost from Federal dollars; and there is a need to devise a means of long-range planning on the future of education, including the problem of school finance and the proper Federal role in dealing with this problem.

The NEA seeks equal educational opportunity for all Americans. Its members believe that the budget process should recognize that public education is a prime priority in a democratic society. Public education should be provided to all regardless of their station in life. Educational programing should be suited to the individual, should be nonsegregated, and should be offered at public expense. Individuals should be free to choose, to supplement, or to substitute education in privately supported, nonsegregated, nonpublic schools.

Under the Constitution, the control and direction of education are vested in State and local governments. NEA believes that such control and direction are of paramount importance, but that the needs of a mobile, highly technological society demand a national policy of free access to high quality education. To achieve NEA's commitment to equal educational opportunity for all Americans and to assure fair tax practices for all citizens, public education requires a substantial degree of general Federal support and legislation to assure that expenditures for public education are equalized among and within States, taking into account regional variations in the cost of services.

This overview of the Association's organizational goals and objectives and views of our members concerning existing programs sets the stage for our recommendations.

NEA VIEWS ON PROBLEMS CURRENTLY FACED BY TITLE I AND PROPOSED SOLUTIONS

Problem: Delays in distribution of funds caused by the necessity for prior calculation of the entitlements of the States for incentive grants.

Solution: Repeal of the section relating to State incentive grants.

One of the major problems in the administration of title I has been in the timeliness of distributing funds. Long delays have been caused by the necessity of calculating the entitlements of the States for incentive grants under Part B.

Since the amount of the incentive grants is so small that it does not act as an incentive to any State and since eligibility for those grants is so erratic that it is unpredictable, it does not appear to achieve its purpose.

Problem: A continuing process of application since each application covers a period of only 1 year.

Solution: Applications under title I cover a minimum 2-year period.

This would cut application time and costs in half and free local resources for use in the instructional programs. In addition to saving resources and reducing administrative costs, making the title I assistance application and every other year effort would allow the local school to evaluate the effectiveness of a full year program before getting into the reapplication process.

Problem: Insufficient appropriation to cover needs of all eligible children.

Solution: Increase the appropriation.

The level of appropriations has never fully provided for children who are eligible. Funds appropriated over the years have been sufficient to serve only about 45 percent of the children who would be eligible under the formula if it were fully funded. Looking at fiscal year 1979, for example, $5.462 billion is authorized for title I. Only $2.978 billion, or 45 percent, was actually requested by the administration in this budget proposal.

Problem: Funds are qualified for on the basis of children from low-income families and spent for the special educational needs of educationally deprived children located in school attendance areas having high concentration of children from low income families (targeting).

Solution: Title I programs be available for all children from low-income families no matter what school they attend.

Omit the ambiguous phrase "educationally deprived children," the meaning of which has never been agreed upon, and eliminate special projects in targeted locations. Permit local, State, and Federal title I funds to be used for a districtwide program which meets the needs of all the children from low-income families (slow, average, or gifted learners).

Rewrite the title I program to require that the local educational agency receiving title I funds—

(1) Assess, with the involvement of their parents and teachers, the educational needs of all children from low-income families in the school district of that agency;

(2) Develop and implement a plan for providing educational needs for all school children in the district which will insure that the educational needs of all children from low-income families are met; and

(3) Put into place the necessary procedures for insuring that the teachers and parents of children from low-income families who are dissatisfied with that program can make a proper complaint against that program and seek to remedy the defect in the program.

The U.S. Commissioner of Education would be required to develop regulations defining the adequacy of the complaint procedure. These regulations would be subject to congressional review in the manner provided in the General Education Provisions Act.

Problem: State educational agencies approve programs from the LEA's and are paid Federal funds for administrative expense and in many instances impose additional duties and limitations on the manner in which local agencies spend Federal funds.

Solution: Rewrite existing law.

Make a provision that there is State administration of the title I programs only in those States where the State legislature prefers State approval of applications to approval by the Commissioner. If the State prefers, the Commissioner will delegate the approval functions to the State educational agency. In such a case the Federal Government would not pay for State administration of the program.

Problem: Compliance with the antisupplanting and comparability requirements of title I very costly in accounting and administrative work and costly in terms of service in that a narrow category of children (example grades 1–3) were served and usually given services which were of the type not otherwise provided to that category of children.

Solution: Rewrite title I.

The antisupplanting and comparability requirements should be removed, making it possible to serve the children from low-income families regardless of grade level and school attended within the district.

In summary, title I programs have problems that are similar at the urban and rural level. The greatest single problem at both levels is inadequacy in funding. The efforts made to compensate for this inadequacy result in several million eligible children not being served. Those who are being served are restricted due to comparability and antisupplanting requirements.

We believe that the title I program should be revised to provide for the educational needs of all the children from low-income families. We further believe

that the coordination of the use of the local, State, and Federal dollars in support of a program will result in an improved and expanded program while providing for the urban and rural communities in an equitable manner.

CHANGES IN THE PROGRAM OF SCHOOL ASSISTANCE IN FEDERALLY AFFECTED AREAS (IMPACT AID)

We are aware of the many statements made around town about changes in impact aid to be recommended by the administration. Several versions of the administration's proposal have been circulating since last October, yet we have no concrete proposals to which we can react. Therefore, we will make a general statement which takes into consideration the proposals we believe the administration may make.

In general, we are aware of the many years of criticism of the impact aid program which creates the background for the present consideration of legislative changes in that program. These years of criticism seem to have blurred the purpose for which the program was first authorized. The original, and continuing, purposes of that program are: (1) to compensate local school districts for failure to provide real property revenues for the education of federally connected children, and (2) to guarantee that federally connected children receive a minimum level of education by compensating school districts for providing those services.

So long as the program has these two purposes it must be evaluated in light of those purposes—and not on the basis of other criteria which have not been adopted as policy by law. If other criteria for evaluating impact aid are to be used, then the Congress should first rewrite the purposes of impact aid and adopt those new criteria.

Until that is done we can only state that we oppose any cutback in impact aid unless it is part of a general program of assistance to all school districts for the maintenance and operation of schools.

STATISTICS

During the past 4 years, HEW has had a record of less than adequate statistics regarding impact aid. The 1974 revision of impact aid was carried through the Congress without a reasonably accurate HEW estimate of the cost implications. At no time since 1974 has an official HEW estimate been even close to accurate. For this reason we would recommend that this committee exercise extreme caution in using HEW estimates and cross-check those estimates with the Library of Congress or some other appropriate group. We, of course, would be able to advise you on the estimates to be used for impact aid.

LOW-RENT PUBLIC HOUSING

It is our understanding that the administration has had serious internal differences of opinion as to the manner in which the law should treat property on which low-rent public housing is located. Until we know their final decision on this matter there is no way to react. However, we would point out that payments based on low-rent public housing would have an immense effect on urban school districts. It is possible that low-rent public housing payments would concentrate more funds in urban areas than a concentration factor in title I.

We would suggest that the committee ask for estimates comparing the distribution of funds under impact aid and under title I for urban districts if $400 million were to be added to each of the two programs above the current policy levels.

OUT-OF-COUNTY "B" CHILDREN

It is our understanding that the administration will propose that a school district may not count a child as a federally connected child if that child's parent works on Federal property located in a county other than the county in which the school district is located.

Without a detailed analysis of the merits of such a proposal, we would only suggest that the education of any child in public school normally is supported by real property taxes from two sources: (1) taxes on the property where the parents work; and (2) taxes on the property where the child lives. An out-of-county "B" child is lacking one of the two sources. The question is who should pick up the cost of the other half? Under the existing program, consistent with the two purposes stated above, the Federal Government has taken responsibility for 40 percent of

local costs for an out-of-county "B" child—leaving 60 percent for local sources. Under the administration proposal the entire local cost would be borne by the school district to be covered by inequitable property taxes.

ABSORPTION

It is our understanding that the administration will be proposing that each school district be required to "absorb" the cost of educating a number of federally connected children equal to about 3 percent of the average daily attendance of that school district. Three percent does not sound like much; however, the statistics tell the story. This proposal would probably eliminate all the urban school districts in the program and severely reduce payments for the already shaky budgets of heavily impacted districts in which the administration purports to have an interest. Measured against the two purposes of impact aid stated above, this absorption proposal has little merit.

CONCLUSION

As you know, the Congress is presently in the midst of a review of impact aid. Our views were presented before the Committee on Education and Labor. We have made suggestions for improving the administration of impact aid—none of which would have a substantial effect of the total amounts to which local educational agencies in the country are entitled. Part B of title I of H.R. 10890 and our testimony before that committee (which are hereby submitted for the record) contain those suggestions.

If we may assist you in gathering data, analyzing proposals, or in any other way we would be most happy to do so.

Mr. MITCHELL. Thank you very much, Mr. Green.

I don't have many. It is so difficult to ask questions and play an adversary role, especially since we are tuned in on the same wave length. Could you, however, give me a guesstimate as to the cost of your systemwide program as opposed to the present targeting? How much of an increase in spending would be needed?

Mr. GREEN. We have asked Mr. Perkins to introduce our proposal. It is known as H.R. 10890. He has requested the Congressional Research Service to get us a cost factor, an impact statement. We should have that very shortly, and one of the first places it will be brought is to this committee, so you can see that. It had to be introduced first before the impact statement.

Mr. MITCHELL. Are you familiar with Congressperson Shirley Chisholm's education bill, the legislation she is preparing?

Mr. GREEN. I have read through her proposal. I have not studied too much yet because of the problems we have had in trying to get ours moving.

Mr. MITCHELL. In principle, would you support one of the major features of her bill; that is, to extend title I services to the junior high schools, to the junior high school level?

Mr. GREEN. To spread it throughout the school system because we have people who come through the first three grade levels in these programs still having needs that are unmet and oftentimes because of the peer pressure and program exposure—over a period of years they fall backward.

Mr. MITCHELL. As a member of this committee and as a Member of Congress, I get two sets of increasing pressure with regard to education. One is the pressure for some Government funds to go into the paraochial schools. I guess I would have no problem with that, if the budget were filled to overflowing with money. Since this is not the

case, I have a great deal of hesitancy about Government funds going into parochial schools. Would you comment? What would your thinking be on this issue?

Mr. GREEN. Mr. Chairman, there is a real problem there. Frankly, our position is that the obligation of Government is to public schools and that they should have the responsibility for financing public education; that private and parochial education so far as students are concerned should be able to come through the procedures that are currently set up under title I programs and under the Elementary and Secondary Education Act to come in for services.

But distribution of funds, public money to private and parochial institutions, we are opposed to in its entirety.

Mr. MITCHELL. The other set of pressures relates to the rural-urban problem. I am urban. I care about cities. I want to see them revitalized with good educational systems. On the other hand, as a Member of Congress, I am really increasingly concerned about the plight of rural education; I know in my own State of Maryland, in southern Maryland, in some of those counties where the facilities, the textbooks, the equipment just is not there. How do we go about arriving at an equitable split of funds between rural and urban? I think we are going to be pressured into doing that and I think both needs have to be met.

Mr. GREEN. Mr. Chairman, you are exactly right, and it is one of the most difficult problems I think that we face now. But if we are not careful, we can become bogged down in a big fight between rural and urban and all come out losing.

Right now, when you look at the cost and what has happened, I use 1973 because of the energy crunch that year, we have no well-to-do, wealthy public schools in either the rural or the urban areas. They have problems that are unmet.

The biggest source of revenue for public education for years has been the property tax and when you and I were in our teens growing up, it was the last thing we had thought of, of making property tax and monthly payments which would constitute a third to a half of our total house payment when you start $100, $200 a month. There are people who are paying almost $200 a month in property taxes on the west coast. It just blew my mind when I looked and saw what was going on. Property tax is overburdened and as a source of revenue it is drying up.

States have moved in and expanded through an effort to add State equalization plans and programs, in an attempt to distribute wealth, but they have also put the sales tax up, income tax up and other sources of revenue so that they are beginning to strain.

What we are going to be forced to do to ultimately solve our problem is a greater partnership on the part of the Federal Government, assuming we have always used this one-third, one-third, one-third, if for no other reason because there are three parties involved, and we would hope to see the burden kind of split among the three.

We need to increase the Federal contribution for the support of public education. It just must be done. As long as rural and urban both have the big problems that they have now, in quality of product—we have got problems there and the solution to the problem is

going to be in a reduction of class size, and an increase of the number of qualified professional personnel to be able to help and meet the problems that they have whether it be reading, speech, math, whatever it is.

So until we can solve that problem, that is why I am saying with title I let's don't get pushed aside from our real effort and goal, which is to improve the title I program extend it so that it covers everyone that is eligible; put as many dollars as we can in it to see that the quality is as high as possible; hire some specialists who can help with speech problems, with sight problems, with counseling problems that are needed, because more and more you are very much aware we are at the elementary and secondary school level assuming more and more a role of another parent.

So I don't think that the fuss should be nor that we should be drawn into one between local and urban or rural and urban, but to zero in on the total problem. We should take a careful look at title I to see what change of distribution will produce by way of program and even dollar changes, because that is going to affect ultimately the amount of programing.

The administration is talking about an increase of $620 million or $630 million for the title I program. I think using the current formula without change going into the plan that we are talking about, that we will be able to improve the quality of the program of title I in every school in the Nation and, at the same time, cover all of the students for the first time that are eligible for it.

I would like to see that disproved by figures before we attempt to try to pull dollars out and pour them into a given area. The schools' financial situation is not going to solve the problems of the finance of the urban areas nor the rural.

Mr. MITCHELL. Of course, I agree with you. But you have made a very eloquent statement, but it doesn't help me very much with my immediate political considerations, Sunbelt versus Northeast, and so forth.

Just two quick questions on impact aid: This is a highly controversial program as you know. One part of the controversy centers around what percentage should be the contribution. Do you have any data to show that those who live in impacted areas actually utilize up to 40 percent of the services of that area? The formula is sort of based on a 40-percent level, as you know.

Mr. GREEN. That is for the category B?

Mr. MITCHELL. Category B. Do you have information or data which would substantiate that those who live in impacted area B actually utilized 40 percent of the services of that local political subdivision?

Mr. GREEN. Mr. Chairman, I don't. I do know this: That basically the local education agency generally as an average furnishes about 40 to 42 percent of the total revenues to meet the budget of the local school district. So since the Federal contribution for impact aid amounts to, say, 40 percent of the cost, this would seem to me to be a reasonable projection of what is happening.

Richard Smith, who is with me, has worked in this area for many years, particularly in the impact aid. Would you like to comment on that?

Mr. SMITH. In the case of B category children, the formula is worked out so that the Federal Government in its entitlement pays 40 percent of the local contribution rate to a school district. This was based on a study done by the Battelle Institute and one by SRS I think back in 1970 and 1972. In 1974 when the Congress revised the impact aid law and lowered the Federal contribution from 50 to 45 percent for all B students and 40 percent for other students, it was with the understanding that about 40 percent of the cost of the education normally is provided by the employer taxation, taxation on the employers. So the calculation was, how much is normally from the appropriate tax of a homeowner and how much comes from the taxation on the employer?

Since the Federal Government is the employer and is not being taxed, the 45 percent was the figure selected for the Federal Government to pay in lieu of an employer who would normally be paying in taxes.

Mr. MITCHELL. My last question concerns impact aid. Needless to say, I continue to be amazed by our President. However, impact aid has been controversial and it will continue to be controversial. Yet, I see the administration intends to forward fund the impact aid of its budget.

In your opinion, is this change really necessary? Should we really forward fund the impact aid program?

In the discussion with Mr. Califano this morning, the same issue came up and although on many occasions I have supported forward funding and probably will do so in the future, it does make it much more difficult for this Budget Committee to control the budget when you forward fund.

But more specifically, do you feel that forward funding of impact aid as proposed by the administration is necessary?

Mr. GREEN. Mr. Mitchell, we have no position as an organization on that, but speaking as an individual, I have problems with it. I am afraid there is a trap involved in it. Maybe I am a little paranoid when it comes to looking at this. But I think the solution to the problem of financing the impact-aid situation would be simply to, based on the prior year's entitlement, make a distribution early in the school year of, say, 75 percent of that amount and have this in the statute so there is no need then to forward funds so long as you have given them a sufficient amount of money in order to start into the school year, and they know in advance that they are going to get 75 percent of the prior year on the first distribution and make that early enough in the year so they can utilize it.

I think later in the year we make the adjustments as soon as we have the counts of the students. Then why do we need to forward funds?

Mr. MITCHELL. What are the dangers in forward funding in your paranoia?

Mr. GREEN. As we go down the road it becomes a lever that can be used against us at the time of reauthorization to reduce, I think, the overall program. No program has been under attack more years I think by the administration, whether it be Democratic or Republican, than the impact-aid program.

Mr. MITCHELL. Thank you very much, Dr. Green. As usual, your testimony was excellent. We appreciate your taking the time.

[Replies to questions submitted by Mr. Green follow:]

REPLIES TO QUESTIONS BY JAMES W. GREEN

Question 1. An estimated 5.6 million students now participate in the current title I program. Yet several millions more educationally and economically disadvantaged "would-be-eligible" students do not participate either because they are scattered into areas not defined as concentrated poverty areas; or their schools are ranked below a district's cutoff point for distributing title I funds.

Inasmuch as a sizable "unmet need" is already established, wouldn't it be better to liberalize the current formula to serve as many as possible of these unserved eligible children rather than create a new program?

Answer. The current title I formula, based on the last census, covered a number of children equal to the present number of economically disadvantaged children who should be given special educational recognition. The problem is not the formula.

The problem is that the formula covers more children than are being served by programs of instruction designed to meet the educational needs of poor children. Those needs can only be met if title I is funded at the full level envisoned in the formula, and then only if State and local funds are integrated into a plan to meet those needs.

The present "targeting" or "fund concentrations" on particular schools is the result of planned inadequate funding. The NEA position is that all poor children should be served without regard for whether they attend target schools.

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Question 3. Reform of the impact aid program has been the subject of much debate for many years. The administration's proposed reform, like most past reform efforts, would reduce payments to the B-category of pupils on the basis that 90–95 percent of the parents of these children pay property taxes, thus contribute to local school revenues and that added economic activity results from Federal employees' consumer activities.

Would you comment on these or any other assumptions which underlie this proposed reform?

Answer. The administration's impact aid proposal presumes that local property tax on the residences of schoolchildren pay for the cost of their education. This presumption is ill-founded and cannot be justified. To the contrary, every study of the sources of local revenues for education indicates that, to the extent that schools rely upon real property tax for their support, they rely on real property taxes on both the place of residence and the place of employment of the parent of the school child. We have generally assumed that school districts receive about one-half of their property tax from places of business. When the place of business is on Federal property—no tax is paid. Impact aid for children whose parents work on Federal property is designed to pay part of the cost of having nontaxable places of business in the school district.

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Question 5. The administration's proposed reform of impact aid includes changes in the current absorption provision to reduce and, in some cases, eliminate payments to districts which are not heavily impacted.

Would you explain first, the basis for the current absorption provision and, second, the impact of the administration's new absorption proposal on school districts? Please include your estimate of savings to the Federal Government.

Answer. The absorption in existing impact aid law, reduces the payment for "B" children for each school district by about 2 percent of the No. "B" children—in most school districts. This absorption was adopted by the Congress in 1974 and took effect in fiscal year 1978. Its budgetary impact is minimal. We do not know the full rationale of why it was adopted.

The absorption proposed by the administration would reduce payments for a number of children in a school district by 3 percent of the average daily attendance of all children enrolled in the schools of a local educational agency. This would have the effect of cutting every district in the county and eliminating from the program most of the cities.

The administration has not released a reliable estimate of the budgetary impact of their absorption proposal.

Question 6. The administration proposes to forward fund impact aid. Do you view this change in funding as necessary?

Answer. If impact aid payments were made as early as possible after the beginning of a fiscal year, forward funding would not be necessary. We are proposing a requirement that payments be made on the basis of estimates within 30 days of the beginning of each fiscal year.

Question 7. Would you characterize the title I schools and school districts which you feel should benefit most from receiving funds under an urban/rural initiative?

Answer. The NEA believes that each child from a poor family is entitled to receive an education suited to his or her individual and special educational needs regardless of whether that child lives in the city, the country or suburbs. Moreover, funds appropriated should be sufficient to meet the needs of all such children.

Any formula designed to focus funds on particular localities is designed both as a means of coping with insufficient funds to that job and as a means to leave certain children out. We oppose both underlying premises behind any title I concentration formula.

Question 8. Data supporting the effectiveness of the regular title I local grants program are no longer regarded as preliminary. The problem, of course, is that children lose some academic gain over the summer months.

Inasmuch as the regular title I program is found to raise reading and math scores of pupils, why isn't it a good idea to put these added dollars into the existing programs?

Why wouldn't the best use of funds for a new initiative merely be to provide a "Summer Bridge" program to prevent a loss in academic achievement over the summer? How would you weigh a *boost to the current title I grant program plus a "Summer Bridge" program, against an urban/rural initiative*?

Answer. If Federal, State, and local funds were spent on insuring that every poor child received special educational assistance designed to meet his or her educational needs it would be unnecessary to concentrate on an urban-rural initiative and presumably, "summer bridge" programs would be available wherever they are needed.

Question 9. As you know, 1974 changes in the title I formula severely reduced funds going to many large city school districts, and redistributed these funds to rural areas. Since this time, some of these school districts have recaptured a good deal of their cutback in funds. New York City's allocation, for example, fell from $154 million in 1973 to $114 million in 1976 but is expected to climb to $159 million in fiscal year 1979.

Could you comment on the extent of this decline in title I urban school budget? Will this fiscal year 1979 total increase of $644 million offset recent reductions experienced by big city schools across the past 5 years?

Answer. The 1974 formula changes were enacted by the Congress at a time when very few knew what the extent of the changes would be. We suspect that any "recapturing" by urban areas is the result of increased appropriations.

Question 10. If the reform of impact aid were left to the National Education Association or to you, what steps would you take to achieve a new program?

Answer. The only appropriate reform of impact aid would be to fold it into a program of Federal assistance to school districts for the maintenance and operation of schools costing about $10 billion. Even then the distribution formula would have to take numbers of federally connected children into consideration.

Question 11. Referring to B-category children in the impact aid programs, 66 percent of such children reside in suburban areas. Eighty-five percent of the families of such children fall in the middle to highest median income levels of the district. Payments are made on the basis of local school costs.

Is it fair to say that Federal provisions in these cases are based on the wealth of the school districts? If so, could one make the claim that providing Federal funds in this way runs contrary to State fiscal equalization efforts?

Answer. We cannot agree that 85 percent of "B" category children come from middle to wealthy families in suburban areas. We cannot find the source for that statement.

Respecting equalization, section 5(d)(2) of Public Law 874 has adequate provisions for equalizing expenditures by the States.

[Whereupon, at 4:15 p.m. the task force adjourned, subject to the call of the Chair.]